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3i Group plc

Annual report and accounts 2013

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Debt Management

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Directors' report

Pages 2 to 75 comprise the Directors' report and pages 76 to 85 comprise the Directors' remuneration report both of which are presented in accordance with English company law. The liabilities of Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law. These reports are intended to provide information to shareholders and are not designed to be relied upon by any other party or for any other purpose.

Disclaimer

This Annual report and accounts may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i"). These are not guarantees of future performance and will not be updated. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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Overview

Performance highlights

Our performance for the year to 31 March 2013 (FY2013)

Strategic and restructuring highlights

Significantly outperformed cost savings target

Achieved £51 million of run-rate operating cost reduction by 31 March 2013, 28% ahead of the original target of £40 million

£51m

cost savings

Substantial gross debt reduction, with target achieved ahead of schedule

Gross debt of £1,081 million at 31 March 2013
Gross debt of £917 million at 30 April 2013, representing a 44% reduction from £1,623 million at 31 March 2012

44%

gross debt reduction
by 30 April 2013

Strong Private Equity realisations

Delivered realised profits over opening value of £190 million, a significant increase compared to £22 million in FY2012, and representing an uplift to opening value of 49% and a money multiple of 2.1x

49%

uplift to opening value

2.1x

money multiple

Growth in assets under management

Total AUM growth of 23% to £12.9 billion, including growth in third-party AUM of 45% to £9.2 billion

23%

total AUM growth

Financial highlights

Material improvement in total return

Total return of £373 million representing 14.2% on opening shareholders' funds, a significant improvement on the prior year loss of £(656) million and negative return of (19.5)%

14.2%

total return on opening shareholders' funds

Robust NAV growth

NAV per share of 311 pence, up 11.5% over the period, after taking into account implementation costs and dividends in the period of 5.8 pence and 8.1 pence per share respectively

311p

NAV per share

11.5%

NAV growth over year

Strong total shareholder return

Since the announcement of 3i's future strategy, 3i has generated a total shareholder return of 67%, with an increase in share price from 191 pence at close of 28 June 2012 (day before the announcement) to 316 pence at close on 28 March 2013 (last trading day of FY2013) and an interim dividend of 2.7 pence paid in January 2013

67%

total shareholder return

Rebased dividend

Proposed final dividend of 5.4 pence per share, bringing total dividend for FY2013 to 8.1 pence per share, in line with the rebased dividend policy

8.1p

total dividend per share

Our business

Private Equity

Mid-market private equity business focused on investing in northern Europe, North America and Brazil

102 ³ⁱ portfolio companies

£2,707m of ³ⁱ portfolio value

£4,851m of total AUM

35% third-party capital

as at 31 March 2013

Investment funding model

Investments have been made through a series of limited partner funds focused on either majority or minority interests. These funds include the €5bn European buyout fund Eurofund V, and the €1.2bn Growth Capital Fund.

Following the end of the investment periods for these funds we will invest using a combination of proprietary capital and third-party co-investment. We have established framework arrangements with a number of leading investors for investing alongside 3i.

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¹ Other includes 25 legacy investments previously disclosed as non-core with a total AUM of £43m

Highlights of the year

- Strong portfolio performance, delivered gross portfolio return of 19.7%
- Re-focused new investment activity on northern Europe, North America and Brazil
- Substantially implemented programme of asset management improvement initiatives
- Strong realisations of £575m achieved at an uplift of 49% on opening value and a money multiple of 2.1x
- Completed three new investments: two in Brazil and one in Germany
- Established framework arrangements with leading investors to co-invest alongside 3i on future transactions

For more on Private Equity please go to page 28

Infrastructure

Infrastructure investor focused on investing in utilities, transportation and social infrastructure in Europe

10 ³ⁱ portfolio companies

£507m of ³ⁱ portfolio value

£1,579m of total AUM

70% third-party capital

as at 31 March 2013

Investment funding model

Investments are made through 3i Infrastructure plc (3iN), a listed vehicle in which the Group has a 34% shareholding, which focuses on investing in core infrastructure and social infrastructure projects in the developed world and in particular in northern Europe.

3i also manages the 3i India Infrastructure Fund, a US\$1.2bn limited partner fund to which the Group has a US\$250m commitment. This Fund ended its investment period in November 2012.

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Highlights of the year

- European portfolio continued to perform well and generated a strong level of portfolio income
- 3iN's share price increased by 7% and 3iN paid a dividend of £18m to 3i Group
- In May 2013 3iN increased its annual distribution yield target to 5.5% of opening NAV from 5.0%
- Sale of 3i's stake in Elenia for £30m

For more on Infrastructure please go to page 35

Debt Management

Loan manager specialising in the management of third-party capital, invested in non-investment grade debt in Europe and the US

24 funds

£81m of 3i portfolio value

£6,440m of total AUM

99% third-party capital

as at 31 March 2013

Investment funding model

Investments are made through 24 funds: 15 in Europe and nine in the US. There are 18 CLO funds and, as at 31 March 2013, 12 of these funds remain within their re-investment period.

Across these funds, 3i has invested proprietary capital equivalent to 1% of AUM.

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Highlights of the year

- Good fund performance in Europe, maintaining strong track record
- Acquisition of Invesco's European CLO management contracts and subsequent performance enhancement
- Established US platform, through a strategic transaction with Fraser Sullivan
- Launch of two US CLOs since establishing the US platform, raising c US\$1bn
- Grew AUM by 92% to £6.4bn at 31 March 2013

For more on Debt Management, please go to page 39

Group

Leading international manager of third-party and proprietary capital with three strong and complementary investment businesses

£3.3bn of 3i portfolio value

£12.9bn of total AUM

71% third-party capital

as at 31 March 2013

Investment funding model

Investments are made using a combination of third-party and proprietary capital depending on the business line in order to achieve a blend of capital and income-based returns.

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Highlights of the year

- Significantly outperformed cost savings target, achieved £51m of run-rate operating cost reduction
- Substantial gross debt reduction with target achieved ahead of schedule. Gross debt of £917m at 30 April 2013, a 44% reduction from £1.623bn at 31 March 2012
- Total AUM growth of 23% to £12.9bn, including growth in third-party AUM of 45% to £9.2bn
- Material improvement in total return to £373m (2012: £656m), representing 14.2% on opening shareholders' funds (2012: 19.5%)
- NAV per share of 311p, up 11.5%

Chairman's statement

“

I am pleased to announce a strong set of results showing improved performance across our business

FY2013 has been a year of significant change for 3i. We have made substantial and rapid progress and this has established solid foundations for the next phase of our strategic plan

”

Sir Adrian Montague
Chairman

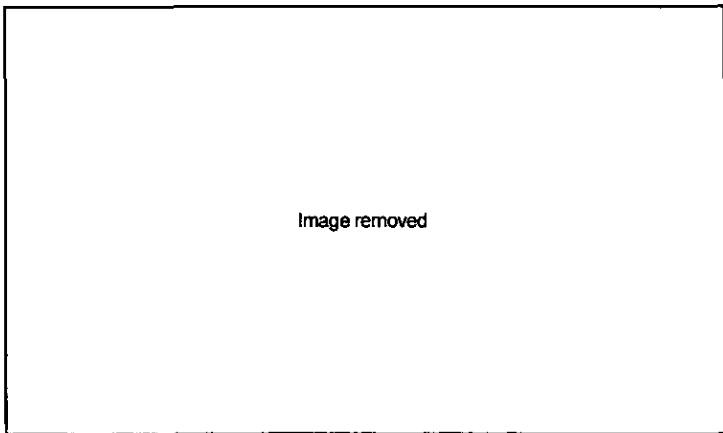


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Highlights

23%

Growth in total AUM

14.2%

Total return on opening
shareholders' funds

8.1p

Total dividend per share

Over 12 months ago, commencing in January 2012, I undertook several rounds of discussions with our major shareholders which focused on 3i's performance at that time and the prevailing discount of 3i's share price to NAV

Following the announcement in March 2012 of Michael Queen's intention to resign as Chief Executive, I was again in contact with our shareholders regarding the process to select Michael's successor. This culminated in the appointment in May 2012 of Simon Borrows as 3i's new Chief Executive with a clear mandate from the Board to pursue his strategic plan.

On 29 June 2012, within six weeks of his appointment, Simon and his management team had undertaken a strategic review of the Group and announced the future strategy for 3i, including an extensive restructuring plan. Since then, the management team has made rapid progress in executing this wide-ranging restructuring plan which the Board believes has now established solid foundations for 3i's future growth and success over the longer term.

Restructuring and strategic progress

FY2013 has been a year of significant organisational change at 3i, the first step of which was a major cost reduction programme to bring down the Group's operating costs to be more in line with our annual cash income.

Alongside this, our Private Equity business has been restructured and re-focused. This has included the implementation of a comprehensive programme of initiatives to bring greater focus, consistency and discipline to its investment processes and asset management approach. These changes are already making a real difference as evidenced by the materially improved performance of the Private Equity investment portfolio as well as a series of realisations at strong uplifts to book value and healthy cash profits.

In addition to re-shaping our Private Equity business, we have announced several important initiatives to grow and develop our Debt Management business.

We have almost doubled third-party AUM in Debt Management from £3.3 billion at 31 March 2012 to £6.4 billion at 31 March 2013. This growth has included the acquisition of European CLO management contracts from Invesco and the strategic transaction with Fraser Sullivan, a leading specialist US debt manager, to establish 3i's US debt management platform.

Infrastructure continued to generate strong portfolio income and deliver steady underlying asset performance in its core European market. The value of the Group's 34% shareholding in 3i Infrastructure plc ("3iN") increased by 71% in the year. In addition, 3iN recently announced that following its strategic review and rebalancing of risk and reward, it will increase its annual distribution yield objective from 5.0% to 5.5% of opening NAV.

Overall, this demonstrates good progress towards our objective of growing our third-party fund management activities and generating a sustainable annual operating profit over time.

Chairman's statement

Performance and results

Despite continuing difficult macroeconomic conditions and a subdued M&A market, the Group's financial results for the year to 31 March 2013 show significant improvement compared to the prior year

In the year to 31 March 2013 total AUM grew by 23% to £12.9 billion (2012: £10.5 billion), reflecting the material growth in our Debt Management business in the period. Third-party AUM grew by 45% to £9.2 billion (2012: £6.3 billion), representing 71% of total AUM (2012: 60%).

Total return for the Group in the period was a profit of £373 million representing 14.2% on opening shareholders' funds, a significant improvement on the prior year loss of £(656) million and a negative return of (19.5)%. Good growth in portfolio earnings and strong realisations above book value in our Private Equity business contributed to a gross portfolio return for the Group of £546 million in the period compared to a loss of £(329) million in the prior year.

At the time of our half-yearly results announcement in November 2012, the Board declared an interim dividend of 2.7 pence per share and announced its intention to propose a total dividend for the year of 8.1 pence per share. The Board is therefore recommending a final dividend of 5.4 pence per share, subject to the approval of shareholders at the AGM.

In May 2012, the Board announced a strengthened distribution policy designed to give shareholders a direct share in the success of the Group's realisation activities by adopting a policy of returning to shareholders a share of gross cash realisations subject to certain conditions. Under this new policy, the aggregate distribution to shareholders, including the annual base dividend, will be at least 15% and up to 20% of gross cash realisation proceeds provided that gearing is less than 20% and provided that 3i is on track to reduce gross debt to less than £1 billion. Given that these criteria have now been satisfied following the receipt of proceeds from the sale of Mold-Masters, we intend to initiate additional shareholder distributions above the annual base dividend in respect of the financial year ending 31 March 2014.

I am pleased to report that for the year ended 31 March 2013 NAV grew by 11.5% to 311 pence per share after taking into account implementation costs and dividends in the period representing 5.8 pence and 8.1 pence per share respectively. In particular in the three months to 31 March 2013, NAV grew by 8.7% from 286 pence per share at 31 December 2012.

Since the announcement of 3i's future strategy there has been a material appreciation in 3i's share price, and the discount of 3i's share price to reported NAV has been eliminated. 3i's share price increased by 65% from 191 pence at close of business on 28 June 2012 (the day before the announcement) to 316 pence at close of business on 28 March 2013 (the last trading day of the financial year). Over this same period the premium/discount of 3i's share price to last reported NAV has moved from a material discount of 31% to a premium of 10%. This is pleasing and demonstrates the growing confidence in our team and an endorsement of the new strategic plan. However, significant work remains and we will continue to work hard to achieve our strategic goal and further re-build value for our shareholders.

Summary and outlook

Over the last year our focus has been on restructuring the business and delivering against each of the strategic priorities and targets that we set ourselves in June 2012. We have made substantial and rapid progress in this respect and we believe that this effort has established solid foundations for the next phase of our strategic plan. In particular, the materially improved performance of our Private Equity portfolio and the growth of our Debt Management business provide positive momentum going into this next phase of 3i's development. We have set out a clear strategic plan to maximise shareholder value and we will continue to work hard to deliver this.

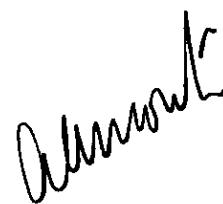
All of this is against an economic backdrop that remains uncertain and volatile. However, we are confident that the substantial progress that we have already made will ensure that 3i delivers value to its shareholders.

Throughout this period of significant change 3i's employees have risen to the challenge and shown both resilience and commitment. On behalf of the Board, I would like to thank all of our employees for their hard work in helping to deliver a strong set of results in such challenging conditions.

I have been fortunate to have the support of a hard working, committed and very capable Board throughout this period of change. With the progress that has been achieved, however, Willem Mesdag, who has served most ably as Chair of our Valuations Committee, feels able to step down and focus his attention on his US interests. He will be leaving us later this year with my grateful thanks, and I expect over time progressively to continue the renewal of the Board.

Signature removed

Sir Adrian Montague
Chairman



Strategy and business model

“ We have made significant progress in the turnaround of 3i and this is demonstrated by our strong results.

We are only one year into our three year strategic plan and there is plenty more that we are doing to drive performance and generate further shareholder value **”**

Simon Borrowes
Chief Executive

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Our strategic priorities

- | | | | | |
|---|---|--|--|---|
| 1 Create a leaner organisation with a cost base more closely aligned with its income | 2 Improve consistency and discipline of investment processes and asset management approach | 3 Re-focus and re-shape the Private Equity business | 4 Grow third-party AUM and income | 5 Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business |
|---|---|--|--|---|

For more on our strategy please go to page 16

Chief Executive's review

On 29 June 2012, following a strategic review of the business, I announced the future strategy for 3i, the first step of which involved the launch of a major cost reduction programme and restructuring of the business

We are only one year into our three year strategic plan and I am pleased to report that we have made significant and rapid progress in the turnaround of 3i. We have delivered against all of the immediate priorities and targets for financial year 2013 that we set out in our plan in June last year. These actions are described in more detail in the following pages

During this period of considerable change at 3i and against a backdrop of difficult and volatile economic conditions we have delivered a strong set of Group results for the year to 31 March 2013. These results underline the substantial progress that we have already made through implementing the first phase of our multi-year strategic plan

We are focused on executing the next phase of our plan, and there is plenty more that we are doing to drive performance and generate further shareholder value

Strategic goal and the 3i Value Build

3i's strategic goal is to be a leading international manager of third-party and proprietary capital with three strong investment businesses delivering top quartile cash investment returns over the longer term

- Focused mid-market **Private Equity**
- Class-leading **Infrastructure**, and
- Growing **Debt Management**

Each of these businesses has different drivers and return characteristics. Together they provide an attractive balance of income and capital returns. We believe that the combination of our asset management skills across these three complementary platforms, together with our strong balance sheet and access to permanent capital represents a differentiated and attractive value proposition

At 3i's half-yearly results and strategy update in November last year, I set out the key phases of our plan to deliver this strategic goal by financial year 2016. These are outlined on page 18

We have executed successfully the first phase of this strategic plan (the year of **Restructuring**), and we are already making strong progress towards delivering the full benefits of this in financial years 2014 and 2015 (the years of **Transition and delivery**)

The clear objective of this multi-year strategic plan is to improve business performance and maximise value for 3i's shareholders and its fund investors – we call this the **3i Value Build** and it comprises

- **Growing Private Equity investment portfolio earnings** through the asset management improvement initiatives, and in turn, increasing the value of our portfolio
- **Realising investments** at values representing good uplifts to book value and strong cash-on-cash multiples, thereby optimising value from the portfolio and enhancing its valuation rating,
- **Generating a sustainable annual operating profit** from our fund management activities through growth in third-party income combined with a right-sized cost base,
- **Utilising our strong balance sheet and permanent capital** to take advantage of further value-creating growth opportunities across our businesses, and
- **Increasing shareholder distributions** through our enhanced distribution policy which provides shareholders with a direct share of our realisation proceeds above the base annual dividend level

Strategic priorities and progress in FY2013

In June last year, when I announced the future strategy for 3i, we set out our immediate priorities and targets for the business in the first phase of our strategic plan. Our progress against each of these priorities is described on the following pages

1. Create a leaner organisation with a cost base more closely aligned with its income

My first priority was to create a fitter and more efficient 3i. In June 2012, we set out key targets for the reduction of operating costs, including reducing staff and consolidating our international network of offices. The table below sets out these key targets for financial year 2013 and our progress against each of them.

We have significantly outperformed our 31 March 2013 cost reduction target through a combination of over-achievement against the previously identified operating cost savings as well as the identification of further areas of efficiency as we have been implementing the restructuring. By 31 March 2013 we achieved **annualised run-rate operating cost savings of £51 million** 28% ahead of our original target of £40 million. To achieve these savings, we have incurred implementation costs (including the costs of associated redundancies) of £30 million in financial year 2013, consistent with the limit that we set ourselves when we launched the restructuring.

It is in this context that we have set a more ambitious cost reduction target for financial year 2014. We are now targeting **cumulative annualised run-rate operating cost savings of £60 million by 31 March 2014**, on a like-for-like basis with the opening run-rate operating cost base of £185 million as at 31 March 2012. This represents a significant upwards revision by 33% from the original cost reduction target of £45 million by 31 March 2014. To realise these additional cost reductions we expect to incur up to £7 million of further implementation costs in financial year 2014. Please see page 47 for further information.

The overall objective is for the Group's annual cash income to cover its annual operating costs. To help you measure our progress against this objective we have introduced a new key performance indicator called 'Annual operating cash profit'. This is defined in more detail on page 48, but in summary it is the difference between our annual cash income (cash fees from managing third-party funds and cash income from our investment portfolio) and our annual operating expenses excluding restructuring costs. In the past, 3i has operated at a material deficit on this measure and our target is to eliminate this deficit on a run-rate basis by 31 March 2014.

Strategy and
business model

Key targets announced on 29 June 2012 ¹		Progress in FY2013
Reduce staff	Headcount reduction of over 160 staff by 31 March 2013	Net headcount reduction of 168 staff at 31 March 2013, before the Debt Management strategic acquisitions. Represents a reduction of 39% of the Group's total headcount of 435 at 31 March 2012.
Consolidate office network	Re-shape the international network with the closure of offices in Barcelona, Birmingham, Copenhagen, Hong Kong, Milan and Shanghai, reducing the total number of offices from 19 to 13	All of these office closures were completed during FY2013. Total number of offices reduced from 19 to 13 . Additional run-rate operating cost savings achieved from reducing office space in London and New York.
Operating cost savings	Targeted annualised run-rate operating cost savings of £40m to be achieved by 31 March 2013 . These cost savings were set against a base-line of annualised run-rate operating costs of £185m at 31 March 2012. Given timing effects and implementation costs incurred, actual reported operating costs in FY2013 were expected to be at a similar level to FY2012 .	Achieved annualised run-rate operating cost savings of £51m at 31 March 2013, 28% ahead of original £40m target . This reduction represents 28% of the base-line operating costs at 31 March 2012. Actual reported operating costs of £170m, below the level in FY2012 of £180m , and include implementation costs and additional operating costs from the acquired Debt Management businesses.

¹ As stated in 3i's announcement on 29 June 2012, the headcount and operating cost reduction targets exclude the impact of certain corporate transactions which were completed subsequently and which relate to our Debt Management business. These transactions are: i) the acquisition of certain European CLO management contracts from Invesco (completed in August 2012) and ii) the establishment of 3i's Debt Management platform in the US through a transaction with Fraser Sullivan (completed in September 2012). These transactions added 15 staff to the Group's headcount.

Chief Executive's review

As part of bringing greater cost efficiency and focus across the business we have removed organisational complexity and bureaucracy. This has included rationalising the numerous existing committee structures, de-layering the organisation and streamlining processes. Shortly after I announced 3i's future strategy in June 2012, in order to drive the change programme effectively, I put in place a new leadership team, the Executive Committee, which is the principal day-to-day decision-making body in respect of managing the Group (see page 61).

All of these actions have led to a simpler organisational structure with shorter lines of communication and this in turn is transforming the culture of 3i to be much more energised and dynamic. This is enabling faster and more consistent decision-making across the business in order to effect the changes that are necessary to deliver improved performance.

2. Improve consistency and discipline of investment processes and asset management approach

In June last year, I announced six asset management improvement initiatives, covering all aspects of 3i's investment and asset management processes within Private Equity. In particular, these initiatives were designed to ensure a highly selective and consistent approach to new investment, earlier identification of potential issues with existing portfolio companies and well constructed exit strategies that maximise value in realisation processes. This programme of initiatives has been substantially implemented and is already making a real difference. I believe that further benefits will be seen in the performance of our Private Equity portfolio over time. Examples of these initiatives include:

Investment review process we have streamlined our investment review process including rationalising the previously separate Investment Committee and Portfolio Committee structures, each of which considered investments at different points in their lifecycle. In July 2012 we moved to a new single Investment Committee which considers the full spectrum of decisions from investment through to divestment. The new process brings greater central control and oversight. As a result, the Investment Committee is more involved in the early stages of investment processes and has formal oversight of material changes and other value impacting events between investment and divestment including refinancings and senior management changes.

Management assessment following a systematic assessment of key management of our Private Equity portfolio companies we have replaced a number of chairmen and chief executives, particularly in situations where we have underperforming investments. At the same time, we have reviewed the portfolio company board appointees from our own investment teams to ensure that we have the right people and allocation of resource.

Performance monitoring dashboards we have overhauled our monthly portfolio reporting processes within Private Equity and introduced new performance dashboards across our portfolio companies. These include key financial, operational and strategic metrics and commentary. The Group's Investment Committee and Private Equity Partners now meet monthly to review these dashboards and to decide on actions and the appropriate allocation of resources. This initiative has transformed the way we manage our Private Equity investment portfolio.

Exit planning since March 2012 we have been working closely with our Private Equity portfolio companies to develop clear and well constructed exit strategies for each of our investments. These plans are reviewed and refined on an ongoing basis in response to, for example, market developments or unsolicited approaches. This is all done in the context of maximising the value to 3i's shareholders and fund investors of any realisation activity as well as optimising capital allocation and resource across our business. The fruits of this effort have already been evidenced by recent realisations at attractive prices, including for example, Civica, Hyperion, Mold-Masters, NORMA and Quintiles and there are a number of other investments in exit processes that are well advanced.

Vintage control policy and capital allocation last year we implemented a new vintage control policy for the Group's own balance sheet investments. This is designed to minimise the risk of over-investing at the top of the private equity cycle in the future. In addition to monitoring investment and capital allocation within Private Equity, we have extended this approach to the rest of the Group and have combined it with our broader risk management framework which assesses and monitors other key risks for the Group. This forms part of our refined risk management approach which is more closely linked to our new strategic objectives. Further information can be found on pages 50 to 55.

3. Re-focus and re-shape the Private Equity business

As well as consolidating the international office network, we have re-focused our Private Equity business on mid-market investing in sectors where we have real expertise, and in our core northern European markets: North America and Brazil. We have suspended new private equity investment in Asia and Spain, where the focus of our investment teams is on managing intensively 3i's existing investments.

During financial year 2013, we have made a number of important realisations with aggregate proceeds to 3i of £575 million. These include EUSA Pharma, Giraffe, HILITE, Mold-Masters and NORMA. In aggregate, Private Equity realisations in financial year 2013 have generated an uplift of 49% over opening book value and a money multiple of 2.1x. Many of these realisations were based on the detailed exit plans that we put in place a year ago in order to optimise the value of those investments, and we will continue to execute our realisation plans in this way.

Over the next two years, the focus of our investment teams will continue to be on managing intensively the existing portfolio. We will continue to drive performance improvement and value-building strategies and to seek realisations where conditions are right to maximise proceeds. This will further demonstrate the quality of our asset management approach and the value of our Private Equity portfolio, and is a key part of re-establishing our investment track record.

At the same time, we are pursuing a highly selective and measured approach to new investment. We will only focus on sourcing investment opportunities in the sectors and geographies where we believe that we have demonstrable competitive advantage. While the level of new opportunities being reviewed by our investment teams has increased materially over the last year, our investment in the last year has been low as we continue to see a wide gap between buyers' and sellers' price expectations.

4. Grow third-party AUM and income

Over time, 3i aims to generate more third-party income through the raising of further third-party funds under management. Despite the current tough fundraising environment, we have made good progress, growing third-party funds by 45% in financial year 2013. Third-party funds now represent 71% of our total assets under management, compared with 60% a year ago.

Private Equity we are investing through a combination of third-party and proprietary capital.

- In March 2013, 3i announced it had completed its second Brazilian investment with the acquisition of leading Brazilian eyewear retailer Oticar Carol. The 3i-led consortium included institutional investors Neuberger Berman and Siguler Guff.
- 3i has established framework arrangements with a number of leading investors to invest alongside 3i in mid-market European private equity buy-out opportunities. These arrangements include fees and carry payable to 3i. We believe that these innovative arrangements with market-leading institutions demonstrate confidence in 3i's investment capabilities as well as providing access to additional investment capital.

Infrastructure the European portfolio continued to perform well and generate a strong level of portfolio income.

- Infrastructure is a key contributor to the Group's annual cash income through both third-party fees and portfolio income. In addition, the value of the Group's 34% shareholding in 3i Infrastructure plc increased by 71% during financial year 2013.
- There is strong demand for infrastructure assets as investors seek yield, and we are seeing a number of interesting investment opportunities in our core markets. In addition, we are continuing to explore opportunities to grow our existing infrastructure platform and product offering.

Debt Management we have almost doubled third-party AUM over the past 12 months from £3.3 billion at 31 March 2012 to £6.4 billion at 31 March 2013.

- We have made significant progress in growing our Debt Management business through a number of initiatives, including through the strategic transaction last year with Fraser Sullivan to establish 3i's US debt management platform. This transaction closed in September 2012, and in November 2012 we launched a new US\$450 million CLO (Jamestown I) in the US, and then in February 2013 we refinanced an existing CLO in the US, upsizing it to US\$500 million (Jamestown II).
- We continue to see a number of attractive opportunities for further growth and development of our Debt Management business through fund launches and bolt-on acquisitions.

Overall, this demonstrates good progress towards our strategic objective of growing profitably our third-party fund management activities and generating a sustainable annual operating profit. We believe that over the medium term, this will create material additional value for our shareholders, over and above the value of our proprietary investments.

Chief Executive's review

5. Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business

A key component of our new strategy is to change fundamentally 3i's capital allocation approach so that over time the Group uses less capital to pay operating costs, funding costs and debt repayments, and instead directs more capital towards shareholder distributions and re-investment in our core investment businesses.

As well as achieving a significant reduction in operating costs in financial year 2013, we have also substantially reduced our gross debt and funding costs. Since 31 March 2012, gross debt has reduced from £1,623 million to £1,081 million as at 31 March 2013 and to £917 million by 30 April 2013, representing a total reduction of 44%. Therefore, 3i has met ahead of schedule its target of reducing gross debt to below £1 billion by June 2013. As a result, in financial year 2014, we expect gross interest costs to be less than £60 million (excluding the costs of any further early debt repayment), which is 42% lower than the level in financial year 2012 of £103 million.

The Group's balance sheet is in a very strong position with low gearing and high levels of liquidity. As announced in May last year, we have strengthened the Group's distribution policy in order to give shareholders a direct share in the success of the Group's realisation activities, provided that gearing is less than 20% and gross debt is less than £1 billion. We have now satisfied these conditions, and we expect to initiate additional shareholder distributions above the annual base dividend in respect of financial year 2014. Specifically, for the purposes of the distribution calculation in financial year 2014, we will include the proceeds of £222 million from the sale of Mold-Masters, which were received in March 2013.

A further dimension of our improved capital allocation strategy relates to the structure of our compensation arrangements. In the past, I believe that annual compensation costs as a proportion of the Group's income have been too high and have not represented an equitable split of returns between 3i's shareholders and employees. It is also critical that compensation is not viewed just as a cost to the business, but it should also be seen as a key tool to deliver our strategic objectives and drive performance. Therefore, in July 2012, we launched a Group-wide review of 3i's compensation arrangements with the following key objectives:

- **Ensure a fair and transparent split of returns between 3i's key stakeholders, including between shareholders and employees**
- **Closer alignment of our compensation arrangements with our key strategic objectives**
- **Clearer link between shareholder returns and compensation, including a greater proportion of compensation in 3i Group shares**
- **Greater differentiation between individuals based on their relative personal performance and contribution**

Following discussions with shareholders and employees, we designed new compensation arrangements to achieve these objectives, and we are now implementing them. Further information is provided in the Directors' remuneration report on pages 76 to 85.

Performance and results

Last year was another challenging year for our sector and for the broader financial services industry as we navigated difficult economic conditions and a changing regulatory landscape. On top of this, it was also a year of considerable change at 3i as we implemented a major restructuring plan. We have stayed focused on our objectives throughout all of this, and I am delighted to report that we have met or exceeded all of the targets that we set ourselves for financial year 2013 and we have delivered a strong set of Group results.

In the 12 months to 31 March 2013, total gross portfolio return for the Group was £546 million compared to a loss of £(329) million in the previous year. Each of our three business lines contributed to this result, delivering improved performances compared to last year. Private Equity was the largest contributor with a gross portfolio return of £518 million this year compared to a loss of £(341) million last year.

During financial year 2013, we achieved a series of strong realisations within our Private Equity business. This delivered total realised profits over the last valuation of £190 million, a significant increase compared to £22 million in financial year 2012, and representing an uplift of 49% on the opening portfolio value of those investments realised. This is an excellent result and further evidence of the inherent value of our investment portfolio.

The Group's net portfolio return this year was £432 million compared to a loss of £(425) million in financial year 2012. Again, this represents a material improvement in performance compared to last year. This is despite the fall in third-party fee income from Private Equity, reflecting the impact of the Growth Capital Fund and Eurofund V coming to the end of their investment periods.

The fall in fee income from Private Equity was partly off-set by the significant progress we have made in reducing the Group's operating cost base. We significantly exceeded our cost reduction target for 31 March 2013, and materially reduced the deficit between the Group's annual cash income and its annual operating costs. As a result of the actions we have taken, we now expect that Group cash income will cover operating costs by 31 March 2014 on a run-rate basis. This is not just about cost cutting; it also requires us to grow cash income both from third-party funds under management as well as from our investment portfolio, particularly in our Debt Management and Infrastructure businesses. We have already made a good start in this respect by growing total third-party AUM by 45% in financial year 2013 from £6.3 billion to £9.2 billion. This was largely driven by growth in Debt Management, including the strategic acquisition of Fraser Sullivan. However, cash investment levels were low in the period, falling to £172 million in financial year 2013 from £464 million in the previous year. This reflects a number of factors, not least the continued low levels of M&A activity in Europe as well as our highly selective approach to new investment in the current environment.

During the period NAV per share grew by 11.5% to 311 pence at 31 March 2013 after taking into account implementation costs and dividends in the period representing 5.8 pence and 8.1 pence per share respectively. In particular, strong growth was seen in the last three months of the financial year, with NAV per share growing by 8.7% from 286 pence at 31 December 2012.

In summary, these are strong results and show a marked improvement in performance compared to last year. Between 28 June 2012 (the day before the announcement of 3i's future strategy) and 28 March 2013 (the last trading day of financial year 2013) 3i delivered a total shareholder return of 67%. This is top quartile performance compared to the FTSE All-share index, which delivered an average total shareholder return of 22% over the same period.

Strategic objectives and priorities for FY2014–15

We have made rapid progress in executing the restructuring plan during financial year 2013 and we expect the full benefits of these actions to come through during the next phase of our strategic plan in financial years 2014 and 2015 – **Transition and delivery**. In this next phase, our overall strategic objectives are:

- **Cover operating costs with annual cash income**
- **Grow third-party income and generate a sustainable annual operating profit from our fund management activities**
- **Improve capital allocation strategy, focusing on enhanced shareholder distributions and re-investment in our core investment businesses**

To achieve these key objectives, our priorities and targets for financial years 2014 and 2015 are set out on page 19.

The clear objective of all of these steps is to improve business performance and maximise value for the Group, our shareholders and our fund investors. This is the **3i Value Build**.

Our business model is evolving. Historically, 3i was a private equity investor with returns dominated by realised gains from investment sales and unrealised portfolio value growth. Our new strategy is moving the business towards being a more balanced combination of Private Equity, Infrastructure and Debt Management. Together these three investment platforms provide an attractive balance of annual income and capital returns. In particular, we believe that the combination of our asset management skills across these three complementary platforms, together with our strong balance sheet and access to permanent capital, represents a differentiated and attractive value proposition for shareholders.

While the value of our proprietary investments is the principal driver of our market value today, we believe that our fund management platform is capable of generating sustainable and growing annual profits over the medium term. We believe that this model is capable of generating significant additional shareholder value.

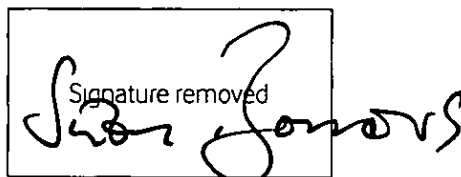
Outlook

While economic conditions continue to be challenging across a number of our key markets, we have made significant and rapid progress in executing the first phase of our turnaround plan and this is already delivering improved performance. The actions we have taken have put 3i in a strong position to withstand future economic headwinds and uncertainty and importantly to take advantage of emerging opportunities. Our strong balance sheet and access to permanent capital represent a key competitive advantage.

With a clear strategy and strong management team, we look to the future with confidence as we execute the next phase of our strategic plan. Our objective is simple: it is to drive improved business performance and generate further shareholder value over the coming years.

It has been a busy and demanding period for everyone at 3i over the last year with many changes and new initiatives. Much of what we have accomplished is down to their hard work and commitment and I would like to thank all of our employees for their dedication and endurance through this challenging period for 3i.

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Simon Borrrows
Chief Executive

Our strategic goal

Clear vision and strategy

3i's strategic goal is to be a leading international manager of third-party and proprietary capital with three strong investment businesses delivering top quartile cash investment returns over the longer term

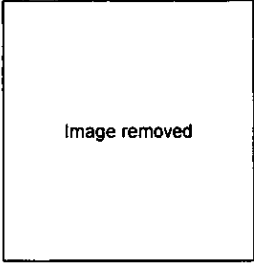
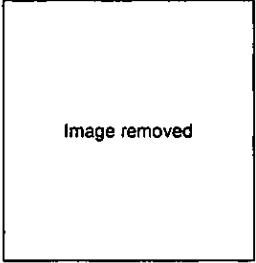
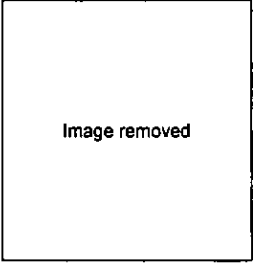
- Focused mid-market **Private Equity**,
- Class-leading **Infrastructure**, and
- Growing **Debt Management**

Each of these businesses has different drivers and return characteristics.

Together, they provide an attractive balance of income and capital returns.

We believe that the combination of our asset management skills across these three complementary platforms, together with our strong balance sheet and access to permanent capital, represents a differentiated and attractive value proposition.

Three strong and complementary business lines

	Private Equity	Infrastructure	Debt Management
Illustrative capital allocation	 Proprietary capital Third-party capital	 Proprietary capital Third-party capital	 Proprietary capital Third-party capital
Key return drivers	1 Portfolio returns 2 Portfolio income 3 Fee income	1 Portfolio income 2 Fee income 3 Portfolio returns	1 Fee income 2 Portfolio income 3 Portfolio returns
Key characteristics and sensitivity to market cycle	■ Pro-cyclical asset class ■ Realised and unrealised capital gains and carried interest	■ Counter-cyclical asset class ■ Income from investment portfolio ■ Recurring annual fee income from permanent capital vehicle	■ Low exposure to volatility of underlying assets ■ Recurring annual third-party fee income ■ Proprietary capital light

The 3i Value Build

The clear objective of all of the steps within our multi-year strategic plan is to improve business performance and maximise value for 3i, its shareholders and its fund investors – we call this the “3i Value Build” and it comprises.

Grow Private Equity
investment portfolio earnings

■ Grow NAV

Realise investments at good
uplifts to book value and
strong cash-on-cash multiples

■ Optimise value of existing
portfolio and enhance
P/NAV rating

Generate a sustainable annual
operating profit from our fund
management activities

■ Add value beyond NAV

Utilise strong balance sheet
and permanent capital

■ Invest in value-creating
growth opportunities

Increase shareholder
distributions through our
enhanced distribution policy

■ Greater capital efficiency;
focus on shareholder
distributions and attractive
re-investment opportunities

Delivering our strategic goal

Our future strategy

On 29 June 2012, following a strategic review of the business, we announced the future strategy for 3i and our immediate priorities for the business

The first step in FY2013 was an extensive organisational change and cost reduction programme – the year of “**Restructuring**” We have made significant and rapid progress with this restructuring plan and we have met or exceeded all of our targets for the business in FY2013

We believe that these actions have established solid foundations for 3i's future growth and success, and we expect to see further benefits coming through in FY2014 and FY2015 – the years of “**Transition and delivery**”

Key phases of our strategic plan

FY2013

Restructuring

Immediate priorities

- **Reduce** operating costs, create a leaner organisation
- **Reduce** gross debt and funding costs materially
- **Achieve** greater central control and business focus
- **Improve** consistency and discipline in investment and asset management
- **Re-focus** and re-shape the Private Equity business
- **Review** Group-wide compensation and define new arrangements

FY2014–15

Transition and delivery

Key objectives

- **Cover** operating costs with annual cash income
- **Grow** third-party income and generate a sustainable annual operating profit from our fund management activities
- **Improve** capital allocation, focusing on enhanced shareholder distributions and re-investment in our core investment businesses

FY2016+

Strategic goal

Clear strategic goal

To be a leading international manager of third-party and proprietary capital with three strong investment businesses delivering top quartile cash investment returns over the longer term

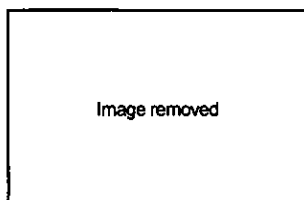
- Focused mid-market **Private Equity**
- Class-leading **Infrastructure**
- Growing **Debt Management**

Our strategic priorities and progress

Strategic priorities	Progress in FY2013	Priorities for FY2014–15
1 Create a leaner organisation with a cost base more closely aligned with its income	■ Net reduction of 168 staff before Debt Management acquisitions ahead of target reduction of more than 160 staff ■ Re-shaped international network with closure of six offices reducing network to 13 offices ■ Achieved greater central control and business focus through removal of organisational complexity and bureaucracy ■ £51m of run-rate operating cost reduction 28% ahead of £40m target	■ New target of £60m of cumulative run-rate operating cost reduction by 31 March 2014, 33% increase from original target of £45m ■ Cover operating costs with annual cash income by 31 March 2014 on a run-rate basis
2 Improve consistency and discipline of investment processes and asset management approach	■ Substantially implemented programme of six asset management improvement initiatives across Private Equity – Investment review process – People governance and resourcing – Operational capabilities, knowledge management and networks – Monitoring and performance tracking – Valuation process exit strategy and planning – Systems upgrade and reporting ■ Implemented new vintage control policy	■ Grow Private Equity investment portfolio earnings through asset management improvement initiatives ■ Continue to re-establish investment track record through improved performance and new investment ■ Roll-out of upgraded Private Equity system
3 Re-focus and re-shape the Private Equity business	■ Combined into single business unit ■ Re-focused Private Equity on mid-market investing in our core northern European markets, North America and Brazil ■ Continued to manage intensively the existing portfolio with total realisations of £575m representing an uplift to opening value of 49% and a money multiple of 2.1x	■ Continue to manage intensively the existing portfolio and realise investments at values representing good uplifts to book value and strong cash-on-cash multiples, thereby optimising the value of the portfolio for 3i, its shareholders and its fund investors ■ Selective investing in our core markets using a combination of proprietary capital and third-party co-investment
4 Grow third-party AUM and income	■ Private Equity – Established framework arrangements with a number of leading investors to invest alongside 3i in Europe – Completed second Brazilian investment alongside co-investors ■ Infrastructure – European portfolio continued to perform well and generated a strong level of portfolio income ■ Debt Management – Substantial increase in third-party AUM from £3.3bn to £6.4bn – Acquisition of Invesco European CLO management contracts – Strategic transaction with Fraser Sullivan, to establish US debt management platform – Launched two US CLOs, raising c US\$1bn	■ Continue to explore opportunities to further grow and develop our three fund management platforms ■ Grow annual operating profit from fund management activities demonstrating additional value beyond NAV
5 Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business	■ Announced strengthened distribution policy in May 2012 to give shareholders a direct share of our realisation proceeds ■ Achieved gearing of less than 20% and gross debt reduction ahead of schedule to less than £1bn – 44% reduction in gross debt from £1.6bn to £0.9bn by 30 April 2013 (31 March 2013: £1.1bn) ■ Reviewed Group-wide compensation arrangements. Established new principles and designed new arrangements	■ Initiate additional shareholder distributions above the annual base dividend in respect of FY2014 ■ Reduce gross interest payable to less than £60m excluding costs of early debt repayment ■ Implement new compensation arrangements across the Group

Business review

“We continue to make progress in restructuring the business and balance sheet.”



Julia Wilson
Finance Director

Group overview

3i Group is an international investor with three complementary business lines. All three business lines invest using a combination of proprietary capital from the Group's own balance sheet and third-party capital. Total assets under management ("AUM") were £12.9 billion at 31 March 2013, an increase of £2.4 billion or 23% in the year (2012: £10.5 billion). This business review provides detail on our performance for the 12 months to 31 March 2013 ("the period") as well as our financial position as at that date, together with comment on our markets and principal risk factors.

The Group's performance for the period resulted in a total return of £373 million, or a profit on opening shareholders' funds of 14.2%, a significant improvement on the prior year (2012: £656 million (19.5)%). Portfolio performance was good in the year with improved earnings growth and strong realisations above March 2012 valuations generating a gross portfolio return of £546 million or 170% of opening portfolio value (2012: £(329) million (8.2)%). Operating expenses and net interest costs were at similar levels to the prior year but include £55 million of charges and items (£30 million re-organisation implementation and £25 million of accelerated interest) linked to the implementation of the strategic priorities announced in June 2012.

We end the year with a substantially lower cost base, with an annual run-rate of £140 million, including the annualised costs of acquired businesses, compared with £185 million at 31 March 2012, the benefit of which will be seen in the next financial year.

Two acquisitions were completed in the period. The acquisition of Invesco's European CLO management contracts in August 2012 added £1.1 billion of AUM. The transaction with Fraser Sullivan in September 2012 established 3i's Debt Management platform in the US and added £2.0 billion of AUM by the year end.

Realisations were achieved at good uplifts to the March 2012 value, generating proceeds of £606 million, an uplift of 47% over opening book value.

Investment levels were low in subdued mergers and acquisitions ("M&A") markets, with cash investment of only £172 million (2012: £464 million) primarily in our Private Equity and Debt Management businesses.

We used net realisations in the period to reduce gross debt to £1.1 billion at 31 March 2013 (2012: £1.6 billion) and, since the year end, have repaid a further £164 million. Consequently, at 30 April 2013 gross debt was £917 million, a reduction of £706 million and significantly ahead of our target to reduce gross debt to below £1.0 billion by June 2013. The one-off costs associated with this total reduction in gross debt offset the interest cost savings in the period. We therefore expect a material reduction in gross interest costs in the next financial year to below £60 million, excluding the costs of any further early debt repayment (2013: £97 million). Net debt also reduced in the year to £335 million, with a consequent reduction in gearing to 11% at 31 March 2013 (2012: £464 million, 18%).

In June 2012, we set an objective to improve the operating cash flow of the Group so that fees and portfolio income cover costs over time. As a result of the growth in Debt Management and the Group restructuring programme, the position has improved, with operating cash losses of £(8) million in the year (2012: £(20) million). We have added this disclosure into the Financial review on page 48. We expect this to improve further in the next financial year as we benefit from a full year of income from Fraser Sullivan and the Invesco fund management contracts and the full year effect of our cost reduction programme. Consequently, we have now set a target for cash income to cover operating expenses by 31 March 2014 on a run-rate basis.

The performance set out above resulted in an NAV per share of 311 pence (2012: 279 pence) after taking into account a 5.8 pence reduction for implementation costs and the payment of 8.1 pence in dividends per share relating to last year's final dividend and this year's interim dividend.

Financial data and key performance indicators

The table below summarises our financial results and our key performance indicators. The rest of this section of the report includes more detail on the performance in the year.

	Year to/as at 31 March 2013	Year to/as at 31 March 2012
Returns		
Gross portfolio return	£546m	£(329)m
Gross portfolio return on opening portfolio value	17.0%	(8.2)%
Net portfolio return	£432m	£(425)m
Net portfolio return on opening portfolio value	13.5%	(10.6)%
Total return	£373m	£(656)m
Total return on opening shareholders' funds	14.2%	(19.5)%
Dividend per ordinary share	8.1p	8.1p
Actual operating expenses	£170m	£180m
Run-rate operating expenses	£140m	£185m
Operating expenses as a percentage of assets under management ¹	1.3%	1.6%
Annual operating cash profit/(loss)	£(8)m	£(20)m
Assets under management ("AUM")		
Proprietary capital	£3,694m	£4,173m
Third-party capital	£9,176m	£6,320m
Total assets under management	£12,870m	£10,493m
Balance sheet		
3i portfolio value	£3,295m	£3,204m
Gross debt	£1,081m	£1,623m
Net debt	£335m	£464m
Gross interest payable	£97m	£103m
Net interest payable	£91m	£91m
Gearing	11.4%	17.7%
Liquidity	£1,082m	£1,653m
Net asset value	£2,934m	£2,627m
Diluted net asset value per ordinary share	311p	279p
Investment activity		
Cash investment	£172m	£464m
Realisations	£606m	£771m

¹ Actual operating expenses, excluding implementation costs of £30 million in the year to 31 March 2013, as a percentage of closing assets under management.

Market environment

Macroeconomic conditions

The macroeconomic environment in Europe remained challenging in the period, restricting the ability of certain Eurozone countries to return to growth while balancing austerity measures. Financial markets and M&A activity particularly in Europe, reflected this in contrast to a recovery in activity in the US, Asia and Latin America. Global M&A activity in 2012 was up 5% year-on-year while European volume fell 3% (source: Capital IQ). The final quarter of 2012 was stronger with global growth of 12% and growth of 7% in Europe compared to the third quarter. However, notwithstanding the increase the final quarter of 2012 in Europe was still 4% below the same period in 2011.

Stock markets in our core markets of the UK, Europe and the US staged a strong rally since late 2012 with the FTSE 100, Eurostoxx50 and S&P up 11%, 6% and 9% respectively between 1 November 2012 and 31 March 2013. Currency markets experienced high volatility in the second half of the financial year with a 6% weakening of sterling against both the euro and US dollar.

Investment and fundraising conditions

Private Equity

European private equity activity followed a similar pattern to wider M&A activity. Annual figures reported by the unquote Private Equity Barometer, showed deal volumes were down 14% in 2012 compared to 2011, with value down 21%. However, the private equity market saw an increase in activity in the final quarter, with deal volumes up 21% and value up 82% quarter-on-quarter. In particular, the increase in larger transactions reflects a gradual recovery in the health of the debt markets.

Notwithstanding the increase in activity in the final quarter, deal flow remains at an historically low level and we expect 2013 to be another year of slow improvement as market conditions gradually recover.

The US and Latin American markets have seen a different trend. The US, in particular, regained momentum through 2012. Company trading, debt availability and therefore market conditions for investment have been improving and a key trend of the year was positive US bank support for transaction activity involving companies with exposure to North America. 3i benefited from this improved sentiment with the sale of Canada based Mold-Masters in the year and the IPO of US based Quintiles, shortly after the period end. Brazil also recovered well from a low in 2011, with a conducive M&A environment offsetting macro and currency concerns. Transaction activity was strong with deal value up 78% in 2012, according to the Emerging Markets Private Equity Association.

Private equity activity in Asia fell 38% in the year as macroeconomic concerns, political uncertainty and regulatory obstacles made investors question investing in the region.

Global private equity fundraising remained stable in 2012, although at much lower levels than pre-crisis and many firms have scaled back ambitious fund targets. There continues to be considerable competition for capital globally. In May 2013, according to Preqin, 264 buyout funds are collectively targeting US\$236 billion in commitments, giving private equity investors the opportunity to be highly selective when making allocations.

Graph removed

Private equity remains an attractive asset class, but there is a broader range of alternatives over which investors are able to allocate their capital. Whilst there is a suggestion that some limited partners will increase their allocations to private equity in 2013 and 2014, the trends towards reducing the number of managers with whom they invest will ensure that the fund-raising market will remain highly competitive in the near to medium term.

Infrastructure

Infrastructure as an asset class is becoming increasingly attractive in a persistently low interest rate environment as investors seek opportunities that can deliver a stable income. This has resulted in strong demand for infrastructure assets not only from specialist infrastructure investors but also from direct investors such as large pension funds or sovereign wealth funds. Transaction activity in the infrastructure market however has remained muted and as demand for infrastructure assets has continued to increase, price points have risen, reducing projected returns.

We continue to see good investment opportunities in core infrastructure as corporates and financial institutions sell non-core assets to refocus on their core businesses or to comply with capital adequacy regulations.

We also believe that the PPP market is likely to provide interesting opportunities in the future. Investment in social and energy infrastructure is a core strategy of Europe-wide government agendas to stimulate economic growth and private sector funding is key to the success of those ambitions. Over time we expect resource-constrained governments throughout Europe to privatise or open up essential infrastructure markets through PPP-style transactions.

Infrastructure transaction volumes in India have reduced, as a result of lower GDP growth rates, a growing fiscal deficit, currency volatility and persistently high inflation. The 3i India Infrastructure Fund reached the end of its investment period in November 2012 and against challenging economic conditions, we have suspended any new fundraising in this market at present.

Debt Management

As with M&A activity and private equity there was a marked difference between debt management market conditions in the US and Europe. New Collateralised Loan Obligations (CLO) issuance to support a resurgence in private equity activity has been strong in the US and the market gained momentum throughout the year. There were 116 CLOs launched in the US in 2012, raising US\$53.5 billion, an increase of over four times on the US\$12.2 billion raised in 2011. Indeed the final quarter of 2012 alone saw US\$23.5 billion raised and this momentum has continued into 2013, with 52 new CLOs issued, raising US\$26.3 billion. An interesting trend is the increasing size of issuance through the year, with first quarter 2013 CLOs averaging above US\$500 million in size compared with US\$433 million in the third quarter of 2012.

New leveraged loan issuance in Europe in 2012 was €28.5 billion, down 34% from the 2011 total, with ongoing macro uncertainties and a lack of primary loan issuance restricting activity. The focus for the market in Europe was on larger players looking to increase market share through the acquisition of management contracts and teams and diversifying into smaller, more flexible debt funds focused on secondary trading, high yield bonds and secondary senior debt markets. Increased private equity deal flow in the final quarter of 2012 and slow recovery in the health of the debt markets across Europe is expected to improve the market dynamics for CLO issuance in 2013. Indeed the first quarter of 2013 saw a small handful of CLO launches providing evidence of prospects for a nascent recovery in this core market after four years of no CLO issuance.

Graph removed

Assets under management

Total AUM grew by £2 377 million to £12 870 million in the period. This reflected significant growth in Debt Management AUM following the Invesco and Fraser Sullivan transactions and the subsequent successful raisings of the Jamestown I and Jamestown II CLOs in the US. Debt Management AUM was £6,440 million at 31 March 2013 up 92% in the period from £3,358 million at 31 March 2012.

This growth was partially offset by net divestment activity in Private Equity. There was also a reduction in AUM as a result of the investment periods for the India Infrastructure Fund and the Growth Capital Fund coming to an end when fees are charged on invested rather than committed capital and the calculation of our AUM reflects this change.

The table below summarises the key movements in the period. Fund by fund listings are shown in the relevant business line sections of this business review.

Table 1 Reconciliation of movements in assets under management by business line

	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m
AUM at 31 March 2012	5 401	1,734	3,358	10 493
of which proprietary capital	3 578	547	48	4 173
of which third-party capital	1 823	1 187	3 310	6 320
Investment (cost)	390	19	23	432
Divestment/Distributions (cost)	(503)	(1)	(50)	(554)
3i Infrastructure plc NAV movement	–	32	–	32
Change from committed to invested capital basis	(421)	(181)	–	(602)
Acquisitions	–	–	2 471	2 471
New funds raised	–	–	626	626
Foreign exchange movements and other	(16)	(24)	12	(28)
AUM at 31 March 2013	4,851	1,579	6,440	12,870
of which proprietary capital	3 145	481	68	3 694
of which third-party capital	1,706	1,098	6 372	9,176

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Image removed

Investment and realisations

Table 2 Investment activity – proprietary capital and third-party capital year to 31 March

	Proprietary capital		Third-party capital	
	2013 £m	2012 £m	2013 £m	2012 £m
Realisations	606	771	186	470
Cash investment	(172)	(464)	(92)	(496)
Net cash divestment/ (investment)	434	307	94	(26)
Non-cash investment	(98)	(182)	(72)	(78)
Net divestment/ (investment)	336	125	22	(104)

Realisations in the year generated cash proceeds of £606 million (2012 £771 million), offset by cash investment of £172 million (2012 £464 million), resulting in net cash inflow of £434 million (2012 £307 million). A further £98 million of investment was in non-cash form (2012 £182 million) and total investment was £270 million (2012 £646 million). Further detail on investment and realisations by business line and type is included in Tables 4, 5 and 6, and by investment in Tables 3 and 7

Investment

The reduced level of M&A activity in the Group's markets led to a lower level of investment activity in the year of £270 million (2012 £646 million). Total cash investment in the year was only £172 million (2012 £464 million).

Private Equity invested a total of £234 million in the year (2012 £540 million). This included £100 million in three new investments: Geka (£57 million), a German cosmetic packaging business; Blue Interactive (£29 million), the Brazilian cable television service provider; and Oticas Carol (£14 million), a Brazilian eyewear retailer. The Private Equity business also provided £2 million of acquisition finance to existing portfolio companies to support their growth plans (2012 £12 million) and £13 million to support restructurings (2012 £9 million). Other non-cash investment includes capitalised interest of £113 million recognised in the loan portfolio (2012 £163 million). This included £7 million (2012 £8 million) of interest which was recognised in the prior year and now capitalised and £75 million (2012 £87 million) of interest provided against as a result of the principal loan value being below par.

The reduction in value of Geka relative to cost reflects early operational issues experienced in the turnaround of this investment. Performance improved markedly in the first quarter of 2013 following the implementation of 3i's investment plan and a change in CEO.

Table 3 New investment in the year to 31 March 2013

Investment	Business line	Country	Sector	Date	3i investment £m	Value at 31 March 2013 £m
Geka	Private Equity	Germany	Industrials & Energy	April 2012	57	39
Blue Interactive	Private Equity	Brazil	TMT	July 2012	29	29
Oticas Carol	Private Equity	Brazil	Consumer	March 2013	14	14
3i US Senior Loan Fund LP	Debt Management	US	Financial services	October 2012	6	6
Jamestown I	Debt Management	US	Financial services	November 2012	6	6
Jamestown II	Debt Management	US	Financial services	February 2013	6	7
Supreme Roads	Infrastructure	India	Infrastructure	June 2012	5	6
Invesco Funds	Debt Management	UK	Financial services	August 2012	5	6
Total					128	113

Infrastructure invested £5 million in one new investment: Supreme Roads in India, in the year (2012 £70 million).

Debt Management invested £31 million in the year in a number of new initiatives (2012 £36 million). This included, in Europe, the purchase of European CLO contracts from Invesco for £5 million and net new investment of £8 million in Palace Street I, the European Credit Opportunities Fund. In the US, we invested £6 million in each of the Jamestown I and Jamestown II CLOs and a further £6 million into the 3i US Senior Loan Fund.

Table 4 Investment by business line for the year to 31 March

	2013 £m	2012 £m
Private Equity	234	540
of which non-cash	113	163
Infrastructure	5	70
of which non-cash	–	–
Debt Management	31	36
of which non-cash	(15) ¹	19
Total gross investment	270	646

1 Includes net investment in Palace Street I

Table 5 Investment type for the year to 31 March

	2013 £m	2012 £m
New/first investment	128	374
Acquisition finance	2	12
Other portfolio investment ¹	35	17
Other	7	61
Total cash investment	172	464
Non-cash investment ²	98	182
Total gross investment	270	646

1 Includes net investment in Palace Street I and syndicated investments in Private Equity

2 Includes capitalised interest and unsettled trades in Palace Street I

Investment and realisations

Realisations

The Group received cash proceeds from realisations of £606 million in the year to 31 March 2013 (2012: £771 million). These realisations were achieved at a strong average uplift over opening portfolio value of 47% (2012: 3%).

Sales to strategic trade buyers were the primary exit routes, with strong company balance sheets facilitating this activity.

Private Equity generated proceeds of £575 million (2012: £770 million) at a 49% uplift over opening portfolio value (2012: 3%). Notable exits included the sale of Mold-Masters, which generated proceeds of £222 million and an uplift over opening portfolio value of 93%, the sale of our remaining quoted holding in NORMA for £106 million and a 6% uplift on opening portfolio value, and the sale of EUSA Pharma, a transatlantic healthcare business, which generated proceeds of £72 million and an uplift of 157% over opening portfolio value. The realisations from the Private Equity portfolio generated a money multiple of 2.1x.

Infrastructure realisations generated proceeds of £31 million, which primarily reflected the sale of a direct stake in Elenia, the Finnish electricity distribution and heating business, for £30 million. 3i had taken a position in Elenia prior to syndication to facilitate 3i Infrastructure plc's investment. A small profit of £1 million was achieved on this exit.

The **Debt Management** business is focused on creating value through earning fees from the provision of fund management services, so its performance is not driven by the realisation of the Group's portfolio investments in the business line. However, realised profits of £5 million from trading activities within Palace Street I, the European Credit Opportunities Fund, were achieved in the year.

Further details of the realisations in the year are included in Table 7.

Table 6 Realisations by type for the year to 31 March

	2013 £m	2012 £m
Trade sales	362	291
Secondaries	54	349
Loan repayment	6	18
Quoted asset sales	117	76
Other	67	37
Total	606	771

Table 7 Realisations in the year to 31 March 2013

Investment	Country	Calendar year invested	31 March 2012 value £m	3i realised proceeds £m	Profit/(loss) in the year ¹ £m	Uplift on opening value ² %	Money multiple over cost ³	IRR
Private Equity								
Mold-Masters	Canada	2007	115	222	107	93%	2.7x	22%
NORMA	Germany	2006	103	106	6	6%	5.8x	39%
EUSA Pharma	UK	2007	28	72	43	157%	2.3x	18%
HILITE ⁴	Germany	2011	42	42	–	–	1.6x	36%
Mayborn ⁴	UK	2007	32	32	–	–	2.9x	19%
Esmalglass	Spain	2002	21	23	4	21%	1.4x	4%
Giraffe	UK	2007	6	15	9	150%	1.5x	7%
MWM ⁵	Germany	2007	–	13	13	100%	3.1x	31%
Monitise (incl Morse)	UK	1995	12	11	(1)	(8)%	4.9x	84%
Halti	Finland	2005	6	5	(1)	(17)%	1.4x	4%
VNU/Vouvray	Benelux	2007	4	4	–	–	0.1x	(38)%
MDY Healthcare ⁴	UK	2006	3	3	1	50%	0.4x	(6)%
The Japan Fund	Singapore	2005	–	3	3	100%	0.7x	(8)%
ABX ⁵	Benelux	2006	–	2	2	100%	5.9x	139%
Instone	Nordic	2003	–	1	1	100%	3.1x	40%
Other investments ⁶	n/a	n/a	13	21	3	17%	0.2x	n/a
			385	575	190	49%	2.1x	n/a
Infrastructure								
Elenia	Finland	2012	29	30	1	3%	1.0x	5%
Other	n/a	n/a	2	1	(1)	(50)%	0.7x	n/a
			31	31	–	–	1.0x	n/a
Debt Management								
Palace Street I	Europe	2011	n/a	–	5	n/a	n/a	n/a
			n/a	–	5	n/a	n/a	n/a
Total			416	606	195	47%	n/a	n/a

1 Profit/(loss) for the year includes the impact of foreign exchange movements from 31 March 2012 to the date of the sale

2 Cash proceeds in the period over opening value

3 Cash proceeds (including income) over cash invested

4 For partial divestments and recapitalisations valuations of any remaining investment are included in the money multiple over cost calculation

5 Deferred consideration

6 Other investments in Private Equity include the realisation of investments with a cost of £186 million

Business lines Private Equity

“Strong returns performance, delivered through continued focus on the portfolio and selective realisations, positions us well for further new investments.”



Alan Giddins
Managing Partner Private Equity Co-head



Menno Antal
Managing Partner Private Equity Co-head

Introduction

3i's Private Equity business operates across Europe, North America, Brazil and Asia. At 31 March 2013, the Private Equity portfolio consisted of 102 companies with operations in over 70 countries. Assets under management at 31 March 2013 were £4.9 billion (2012: £5.4 billion). The value of 3i's proprietary capital invested in the Private Equity portfolio at 31 March 2013 was £3.1 billion (2012: £3.6 billion).

The announcement of 3i's new strategy in June 2012 re-focused the business on the regions where 3i has the most competitive advantage, with the consequent closure of five investing offices and the scaling back of resources to focus on portfolio management in a further four offices. The six key asset management initiatives also announced in June last year have now been substantially implemented.

We have a team of 74 investment professionals. The team is focused on making new investments in northern Europe, North America and Brazil, while actively managing our existing portfolio of assets. The team in Europe also manages 25 legacy investments, all of which are minority investments previously disclosed as non-core, with a total value of £75 million at 31 March 2013.

Having reached the end of the investment period for the 3i Growth Capital Fund in December 2012 and for Eurofund V in November 2011, 3i has established arrangements with a number of market leading investors to invest alongside 3i on future transactions in return for management and other fees and carried interest.

Business model

3i's Private Equity business is focused on investing in mid-market private equity transactions.

The strategy is built around the following components:

- identifying and investing annually in five to seven leading mid-market businesses in northern Europe, North America and Brazil
- utilising 3i's local knowledge and investment disciplines to select attractive assets, purchase them at the right price and then finance them appropriately
- building these businesses through organic growth, international expansion and acquisitions, as well as optimising their operations in partnership with top class management teams,
- maximising value through timely and well-executed exit strategies, and
- generating management fees and carried interest from managed third-party capital invested alongside 3i's proprietary capital.

The main driver of performance is investment returns, supplemented by management fees and carried interest on third-party capital.

During the year, the team reviewed a range of opportunities across each of our core geographies. From these, two investments were completed in Brazil and one in Germany. The team completed 24 full exits, as well as a number of partial returns of capital, generating proceeds of £575 million at uplifts of 49% over opening value.

Mold-Masters

In February 2013, 3i realised £222 million through the sale of Mold-Masters, a leading manufacturer of melt delivery and control systems for the plastics industry. The proceeds from the sale represent a 93% uplift over the March 2012 opening value of £115 million and a 2.7x money multiple on 3i's initial investment in October 2007.

More at www.3i.com

Carefully planned exit

During the summer of 2012, working closely with the company and its management team, 3i developed a detailed exit plan for Mold-Masters. An auction process was initiated in late 2012 which led to interest from a wide range of private equity and strategic buyers. Management presentations were arranged with nine potential acquirers in January 2013 and after careful planning, a second round was launched. Eight bids were received in the second round, seven above the original mid-point of offers, and in February 2013, 3i entered into a definitive agreement to sell Mold-Masters to Milacron, a leading plastics processing solutions provider, for CAD\$975 million.

Significant value creation

3i supported the company in substantially growing market share and turnover between 2009 and 2012. Turnover grew from CAD\$168 million to CAD\$271 million, representing a CAGR of 17%, reinforcing the company's position as a global leader in its sector. Leveraging 3i's extensive active partnership approach enabled the company to accelerate its organic growth in Asia, Europe and South America. The company made a number of add-on acquisitions to expand its geographical reach and product

offering and 3i supported it through a range of performance enhancements including improving its sales force effectiveness, optimising its global manufacturing footprint, new product introductions, upgrading financial management and controls, and de-leveraging in 2009, leading to significant value creation during the period of 3i's investment.

Positioned for growth

Headquartered in Georgetown, Canada, Mold-Masters designs and manufactures the plastic industry's most advanced hot runner systems, temperature controllers and auxiliary equipment. Since 1963, Mold-Masters has invested heavily in research and development. With over 900 granted and pending patents, Mold-Masters has created many technology breakthroughs and enabled countless new ways of molding parts with hot-runners. From its manufacturing facilities in Canada, China, Germany, India and the UK, Mold-Masters serves a diverse and global customer base across high growth end markets. These include consumer electronics, medical devices, personal care consumer products, telecommunications packaging and automotive. The company is an attractive business, well positioned for continued growth as part of Milacron.

Image removed

Business lines – Private Equity

Performance for the year

Table 8 Returns from Private Equity

	2013 £m	2012 £m
For the year to 31 March		
Realised profits over value on the disposal of investments	190	22
Unrealised profits/(losses) on the revaluation of investments	250	(488)
Portfolio income	78	125
Gross portfolio return	518	(341)
Gross portfolio return %	19.7%	(9.7)%
Fees receivable from external funds	19	32
Net carried interest	(7)	–
Operating expenses	(114)	(132)
Net portfolio return	416	(441)
Net portfolio return %	15.8%	(12.5)%

Gross portfolio return

Gross portfolio return was strong at £518 million or 19.7% on opening portfolio value (2012 £(341) million (9.7)%). The portfolios in northern Europe, North America and Brazil generated £543 million profit, 26.7% on opening portfolio value (2012 £(78) million, (2.9)%). The Asia portfolio experienced a more challenging year, with a return of £(29) million or (8.2)% on opening portfolio value (2012 £(74) million (16.8)%). In India, in particular, the portfolio faced the combined challenges of a slowing macro-economy and currency devaluation.

Overall, the portfolio experienced good value growth of £250 million (2012 £(488) million), supported by robust earnings growth. Strong realisations, at good uplifts to the March 2012 valuations, added £190 million to returns (2012 £22 million).

Income from the portfolio fell in the year to £78 million (2012 £125 million) as a result of net divestment of the portfolio, a re-negotiation of terms on specific investments and a small number of loans, particularly in Spain and France, where interest is currently being provided against.

Net portfolio return

After deducting operating expenses and net carry payable, and including fee income from third-party capital managed, the net portfolio return was £416 million or 15.8% on opening portfolio value (2012 £(441) million, (12.5)%).

Fee income reduced in the period to £19 million (2012 £32 million) as the Growth Capital Fund ended its investment period and started charging fees on invested rather than committed capital. The reduction also reflects the full year impact of Eurofund V ending its investment period in November 2011, after which fees were also reduced to a lower rate and received on invested capital.

Following the announcement of a significant restructuring in June 2012, operating expenses have been materially reduced and totalled £114 million, including one-off implementation costs of £23 million relating to the restructuring. The benefit of this lower cost base is expected to be seen in the next financial year.

Operating expenses as a percentage of AUM, excluding implementation costs, fell to 1.9% from 2.4% in the last financial year.

Portfolio valuations

Unrealised value growth was good at £250 million (2012 £(488) million) with the performance of the portfolio being the primary driver. Robust earnings growth and a consequent reduction in net debt were further supported by an increase in the multiples used to value the portfolio.

The majority of the portfolio (77% by value) grew earnings in the year and on a value weighted basis earnings grew by 10% (2012 9%). The larger investments continue to perform strongly. Chart 5 below shows earnings growth rates across the portfolio.

Image removed

Although performance overall was good, there were a small number of investments, particularly in Asia and France, where earnings growth was disappointing against worsening economic conditions in these regions and values reduced. Forecast earnings, used when the forecast EBITDA outlook is lower than the last 12 months data, were used in 11 investments, 22% of the portfolio by number (2012 5.8%) and 11% by value (2012 2%).

In the case of one company, Action, which is experiencing significant growth due to its store roll-out programme, a run-rate adjustment was made to its earnings to reflect the profitability of opened stores for valuation purposes.

The net debt position of the portfolio further improved in the period, with the average ratio of net debt to EBITDA, for those assets valued on an earnings basis, reducing to 3.2x at 31 March 2013 (2012 3.4x). Refinancings within the portfolio during the year also extended the maturity of portfolio debt, with 78% of the debt repayable in 2015 or later (2012 68%). Chart 6 shows the ratio of net debt to EBITDA weighted by portfolio value.

Image removed

The combination of earnings growth and net debt reduction (performance) led to a value increase of £141 million. Following the stock market rises seen since late 2012, the multiples used to value the portfolio increased by 7% in the year. The average EBITDA multiple used to value the Private Equity portfolio on an earnings basis was 8.8x before marketability discount (2012 8.2x) and 7.9x after marketability discount (2012 7.5x). This translated into a positive movement in the period of £37 million (2012 £(267) million).

These multiples remain below those seen in relevant sector and geographic public markets. Table 9 details the EBITDA multiples used to value the portfolio and the FTSE 250 index.

Table 9 EBITDA multiples for the year to 31 March

	2013	2012	Movements in the year
FTSE 250	11.1x	9.6x	16%
3i pre-discount	8.8x	8.2x	7%
3i post-discount	7.9x	7.5x	5%

The multiple increase is lower than the increase in broader market indices as, in a small number of cases, multiples used for valuations have been linked to a cross-cycle level or adjusted to reflect challenges in particular markets or to reflect the small size of the portfolio business relative to comparable quoted companies.

Assets under management

As all the funds in Table 10 are now past the investment period, AUM is calculated using the remaining cost of the underlying investments.

AUM reduced to £4,851 million at 31 March 2013 (2012 £5,401 million) as a result of the Growth Capital Fund switching from a committed capital basis to remaining cost and the net divestment of the portfolio offset by the weakening of sterling against the euro.

During the year, 3i established framework arrangements with a number of leading investors to invest alongside 3i in future transactions in return for management and other fees and carried interest.

Priorities for the year ahead

The key focus of the team is to continue to manage intensively the existing portfolio by implementing clear value-building strategies and realising investments well through carefully planned and executed exit strategies.

We will continue to make new investments selectively in the focus markets of northern Europe, North America and Brazil to further build our track records in these regions.

We will work with co-invest partners on new investments to build those relationships and further expand the group of investors we will work with.

Table 10 Assets under management

	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2013	% invested at March 2013	Gross money multiple ¹ at March 2013	AUM
Private Equity							
3i Eurofund III	July 1999	€1,990m	€995m	€90m	91%	2.1x	€11m
3i Eurofund IV	June 2004	€3,067m	€1,941m	€78m	96%	2.3x	€406m
3i Eurofund V	Nov 2006	€5,000m	€2,780m	€389m	86%	0.9x	€3,700m
3i Growth Capital Fund	March 2010	€1,192m	€800m	€376m	53%	1.0x	€655m
Other	various	various	various	n/a	n/a	n/a	€972m
Total Private Equity AUM							£4,851m

¹ Gross money multiple is the cash returned to the fund plus value as at 31 March 2013 as a multiple of cash invested.

Business lines – Private Equity

Óticas Carol

3i led a consortium with Neuberger Berman and Siguler Guff to invest R\$108 million (£35 million) to support the acquisition of Óticas Carol in March 2013. 3i invested R\$43 million (£14 million) directly in its second Brazilian investment since establishing the team in 2011.

More at www.3i.com

Óticas Carol has built a successful business model that has grown rapidly and is well positioned in an attractive market.

Successful business model

The company was established in 1997 and is the second largest eyewear retailer in Brazil, selling a broad range of prescription glasses, sunglasses and related eyewear accessories. The company operates a franchising model that has successfully attracted optical retailers thanks to the strength of its brand, its strong relationships with suppliers and its dedicated laboratory offering, which provides access to an exclusive range of high quality, own-label lenses.

The strength of this model has resulted in the company operating 490 stores across 19 of the 26 states in Brazil, including Rio de Janeiro and São Paulo. The investment will

support the company management team's plan to extend its store network throughout Brazil, with 3i working closely with management as an active partner, providing retail sector expertise and international best practice in strategy, operations and governance.

Attractive market

The eyewear market in Brazil is highly fragmented and grew at a 15% CAGR between 2006 and 2012. The market is expected to continue to expand significantly above GDP in the coming years due to strong domestic demand fuelled by increasing levels of income per capita, low unemployment, an ageing population, more people wearing prescription glasses and the increased use of eyewear as a fashion statement. This represents an excellent opportunity for the company to continue its growth, supported by 3i.

Image removed

Long-term performance

The long-term performance of the Private Equity business buyout and growth capital investments are shown in Tables 11 and 12. The 2012 Buyout performance, at this early stage, has been very strong, with an IRR of 43%, reflecting excellent earnings growth in the majority of these investments. The 2012 Growth Capital investments have not performed as well, mainly reflecting the higher exposure to more challenging economic markets compared to Buyout investments made in the same period.

The 2008 to 2011 vintages continue to improve as we manage these investments to maximise value for shareholders and fund investors.

Table 11 Long-term performance – Private Equity Buyouts

New investments made in financial years to 31 March vintage year	Cash investment £m	Return flow £m	Value remaining £m	IRR to 31 March 2013	IRR to 31 March 2012
2013	57	–	39	n/a ¹	n/a
2012	269	46	420	43%	n/a
2011	271	–	322	8%	5%
2010	–	–	–	–	–
2009	328	6	306	(1)%	(13)%
2008	715	368	253	(4)%	(7)%
2007	563	516	182	7%	9%
2006	437	1,176	–	48%	48%
2005	326	1,047	47	62%	63%
2004	295	707	–	35%	35%

¹ The 2013 vintage IRR is not meaningful as the assets in the vintage are less than 12 months old.

Table 12 Long-term performance – Private Equity Growth Capital

New investments made in financial years to 31 March vintage year	Cash investment £m	Return flow £m	Value remaining £m	IRR to 31 March 2013	IRR to 31 March 2012
2013	43	–	43	n/a ¹	n/a
2012	70	–	66	(3)%	n/a
2011	21	–	27	14%	20%
2010	46	–	27	(19)%	(52)%
2009	211	49	80	(13)%	(16)%
2008	1,004	720	444	3%	(1)%
2007	553	255	257	(2)%	(1)%
2006	441	629	54	22%	23%
2005	171	314	–	26%	25%
2004	289	530	–	26%	26%

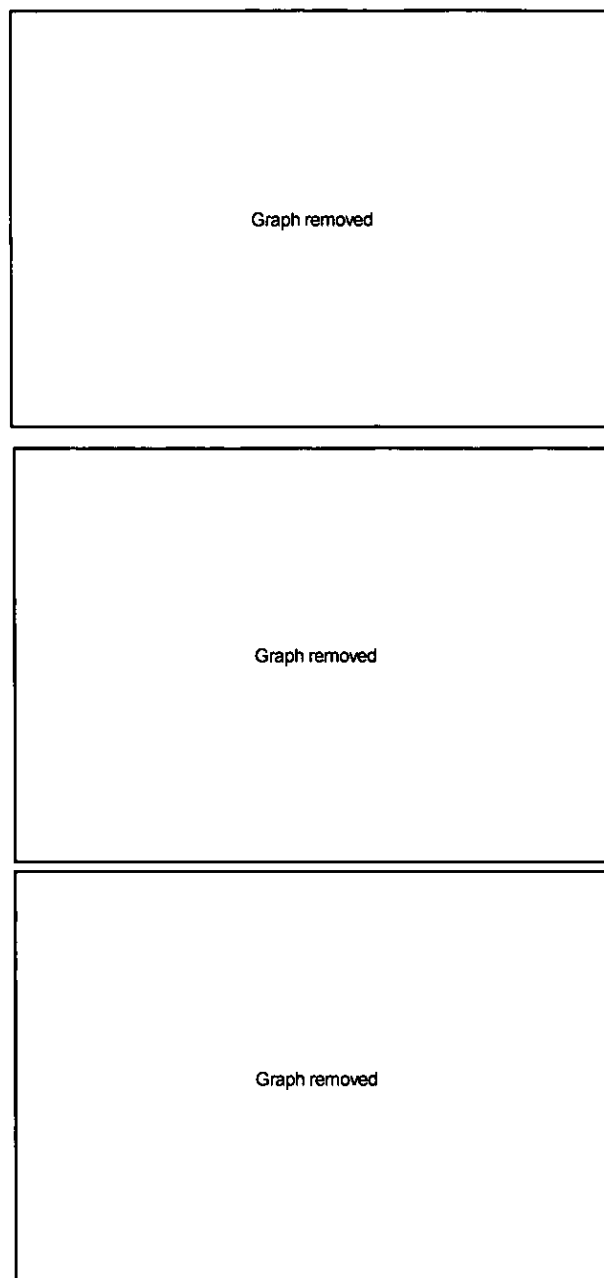
¹ The 2013 vintage IRR is not meaningful as the assets in the vintage are less than 12 months old.

Business lines – Private Equity

Portfolio

The Private Equity portfolio is concentrated in our focus regions with 81% of the Private Equity portfolio by value in northern Europe North America and Brazil. We continued to build our presence in Brazil in the year where we now hold two investments. The Group's direct exposure by sector remains well diversified with no one sector accounting for more than a third of the portfolio.

As shown in Chart 9 the direct value of the portfolio in the 2007 to 2009 vintages is still high and accounts for over half the Private Equity portfolio. This section of the portfolio is being managed to maximise returns and has shown an improvement in performance in the year with a number of investments entering exit processes.



Note

The number of portfolio companies is shown inside the segments of the above pie charts.

Business lines Infrastructure

“The portfolio in Europe continues to perform well, providing a solid platform for future development.”



Cressida Hogg
Managing Partner Infrastructure

Introduction

The Infrastructure business line currently operates in Europe and India, investing proprietary and third-party capital. The business managed or advised assets of £1.6 billion at 31 March 2013, primarily through 3i Infrastructure plc ("3iN") a listed investment company, with net assets of £1.1 billion and a market capitalisation of £1.2 billion at that date and the 3i India Infrastructure Fund (the "India Fund"), a limited partner fund. 3i's infrastructure investments were valued at £507 million at 31 March 2013 (2012: £528 million).

The Infrastructure business has a team of 18 investment professionals based in London, Mumbai and Delhi and is invested in seven businesses in Europe and seven in India, mostly through the funds it manages or advises. The India Fund reached the end of its investment period in November 2012. In light of the impact of volatile macroeconomic and market conditions on the Fund's performance, the Group does not, at present, intend to raise a successor fund in this market.

3i's stated strategic intention is to increase third-party fee income through growth in assets under management. Growth in Infrastructure AUM will focus on Europe where we have a market-leading track record.

Business model

3i's Infrastructure business invests in core infrastructure companies and social infrastructure projects in Europe, with a particular focus on the UK and northern Europe, and manages the existing portfolios in Europe and India.

The strategy is built around the following components:

- investing in core and social infrastructure in the developed world and in particular in northern Europe
- driving value and yield from its European investments by improving their operational performance over time, working with portfolio companies to implement strategies that deliver value over the long term,
- maximising value in the existing portfolio of road, power and port investments in India, working with the local promoters to maximise value in the realisation phase, and
- generating fee income by raising third-party capital to grow assets under management in Europe.

Mature infrastructure businesses tend to generate returns through income and an element of capital growth. They typically have a strong market position underpinning revenues, a degree of inflation linkage, they are capital intensive and tend to have lower volatility across economic cycles.

Returns for 3i from the Infrastructure business line are generated from dividend income and capital growth from its holding in 3iN, capital returns from its investment in the India Fund and advisory, management and performance fees from managing and advising third-party capital.

3i's primary investing vehicle in Europe, 3iN, has permanent capital and can hold investments over the long term. Its objective, updated in May 2013, is to generate a total return of 10% per annum, of which 5.5% is through a distribution yield, by investing in core and social infrastructure. 3iN has delivered an annualised asset IRR since IPO in 2007 of 16% and an annual total return in the year to 31 March 2013 of 8.6%.

Core infrastructure businesses are dynamic enterprises which tend to own their own asset base, such as utilities, not concessions with a finite life. An engaged asset management approach is therefore key to maximising value.

Business lines – Infrastructure

Social infrastructure investing, usually through public private partnership (PPP) projects, typically involves investing in finite concessions where the investor receives a payment in return for making an asset or facility available over a period of time, such as a school or hospital. This type of investment tends to have high inflation correlation, stable revenues backed by governments or related entities and a strong yield when fully operational.

Performance for the year

Table 13 Returns from Infrastructure

	2013 £m	2012 £m
For the year to 31 March		
Realised profits over value on the disposal of investments	–	–
Unrealised losses on the revaluation of investments	(2)	(7)
Portfolio income	18	18
Gross portfolio return	16	11
Gross portfolio return %	3.0%	2.4%
Fees receivable from external funds	21	25
Net carried interest	(1)	(6)
Operating expenses	(24)	(17)
Net portfolio return	12	13
Net portfolio return %	2.3%	2.8%

The Infrastructure business line generated a gross portfolio return of £16 million in the year to 31 March 2013 (2012: £11 million). This was driven principally by portfolio income of £18 million (2012: £18 million), which was partially offset by an unrealised value loss of £2 million (2012: £(7) million).

The value of the Group's 34% holding in 3iN increased by 71% in the year to 31 March 2013, generating an unrealised value gain for the Group of £24 million for the year. This increase was underpinned by the strong performance of 3iN's European portfolio, which also continued to generate good levels of income. In particular, 3iN's holdings in AWG and Oystercatcher saw good value increases. These were supported, in the case of AWG, by the business' continued good operational performance and by favourable market and transaction multiples in the UK water sector and, in the case of Oystercatcher, by resilient operational performance and the refinancing of the acquisition debt facility.

The valuation of the Group's India investments, however, continued to be affected by a number of macroeconomic and market factors resulting in an unrealised value loss of £27 million, which more than offset the gain generated by 3iN. The Indian power investments, in particular, have experienced issues around fuel supply and costs and their ability to pass increased fuel costs to their customers. The road investments faced challenges in project execution due to delays relating to land acquisitions and environmental clearances.

In addition to value growth, 3iN paid dividends of £18 million in the year, which makes up the portfolio income balance (2012: £18 million).

Fees receivable totalled £21 million (2012: £25 million). The year-on-year decline is due to 3iN paying a lower advisory fee of 1.25% for investments held for more than five years (compared to 1.5% for investments under five years old). The lower advisory fee rate was applicable to 40% of 3iN's portfolio during the year. In addition, having reached the end of its investment period, the India Fund now charges fees based on the remaining cost of the investments, rather than committed capital.

In the year to 31 March 2013, the Group also received a performance fee of £1.4 million from 3iN, as its total return exceeded the 8% performance hurdle, which it recognises as carried interest receivable. This was offset by performance payments to the team.

Assets under management

The Infrastructure business line had assets under management of £1.6 billion at 31 March 2013 (2012: £1.7 billion).

The India Fund reached the end of its investment period in November 2012 and consequently its contribution to total AUM is now based on the remaining cost of its investments, rather than on committed capital. This change in methodology accounts for the year-on-year decline in AUM. 3iN is a permanent capital vehicle and its contribution to AUM is calculated on the basis of its net asset value, which increased by 3% in the year, net of dividend receipts.

Table 14 Assets under management

	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2013	% invested at March 2013	Gross money multiple ¹ at March 2013	AUM
Infrastructure							
3i India Infrastructure Fund	March 2008	US\$1,195m	US\$250m	US\$38m	73%	0.8x	US\$689m ²
3i Infrastructure plc	March 2007	£1,072m ³	£366m ⁴		n/a	n/a	£1,072m
Other	various	various	various		n/a	n/a	£103m
Total Infrastructure AUM							£1,579m

1 Gross money multiple is the cash returned to the Fund plus value as at 31 March 2013, as a multiple of cash invested.

2 Adjusted to reflect 3i Infrastructure plc's US\$250 million share of the Fund.

3 Based on latest published NAV (ex-dividend).

4 3i Group's proportion of latest published NAV.

Elenia

3i sold its holding in Elenia to a third-party pension fund investor in July 2012, for a small profit over carrying value. Our Infrastructure team retains responsibility for managing that holding (alongside the 39% holding in Elenia owned by 3iN) and generates fees from this

The investment exemplifies the smart use of our permanent capital, our ability to raise third-party AUM against an existing investment, as well as our ability to leverage our international network to execute the transaction

 More at www.3i.com

A strong business with clear infrastructure characteristics

Elenia owns the second-largest electricity distribution business in Finland, serving around 410,000 customers and with a c 12% market share. This business is regulated on a four-year cycle, delivering a set return on its regulated asset base. It also owns and operates 16 local district heating networks, each with strong market shares in their local area. District heating, which involves the pumping of hot water directly into homes and businesses from central hubs, is not regulated in Finland.

The electricity distribution business operates in a stable and transparent regulatory environment. The new regulatory period began in January 2012, providing clarity over the medium term. The framework encourages investment, providing opportunities for value-accretive growth, as well as network development and innovation.

Finland is among the largest per capita electricity consumers in Europe, with demand expected to grow steadily. The market is fragmented and Elenia could leverage its operational efficiencies and technical superiority to act as a consolidator in its market. The first small bolt-on acquisition was completed in August 2012.

Elenia generates high EBITDA margins, supporting a strong yield over the long term. Returns from the electricity distribution business are linked to inflation and the heating business has been able to increase its charges at least in line with inflation.

An efficient use of our balance sheet

Elenia was acquired from Vattenfall AB in January 2012 by a consortium comprising

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

Using its own permanent capital, 3i invested alongside 3iN to facilitate its investment and deliver 3i's strategy to grow its assets under management. 3iN's own investment concentration limits prevented it from taking a larger stake to match that of the other senior member of the consortium, GS Infrastructure Partners.

In July 2012, 3i sold its 6% holding in Elenia to a third-party pension fund investor for £30 million, generating a £1 million profit over the carrying value. This 6% stake is held by this third party through an intermediary limited partnership, 3i Networks Finland LP, managed separately by 3i's Infrastructure team for an ongoing management fee. This is a great example of 3i raising third-party assets under management against existing investments.

Leveraging our network

While our Infrastructure team does not have anyone on the ground in the Nordic region, it was able to leverage the resources of 3i's Private Equity team in Stockholm to execute the transaction. The Stockholm team provided

- its knowledge of the local market and the help of native Finnish and Swedish speakers,
- access to the best local corporate finance and legal advisers, and
- access to local banks, to put together a financing package.

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Business lines – Infrastructure

Priorities for the year ahead

Delivering on the Group's key strategic objective of increasing third-party AUM will be a key priority for the year. We will aim to achieve this by making new investments through 3iN but will also consider inorganic opportunities.

In Europe, we will maintain our rigorous investment approach, focusing our activity in core and social infrastructure in the UK and northern Europe, building on our market-leading track record of returns. This will be key to positioning 3iN for future capital raisings.

At present we do not intend to raise a successor fund in India. Our team in India is therefore incentivised to manage the portfolio to maximise value in the realisation phase.

Portfolio

3i's investment exposure to infrastructure assets is primarily through its shareholding in 3iN and its commitment to the India Fund. 3i owns 34% of the equity of 3iN, which is a listed investment company with an independent board of directors and is exposed not only to the operational and financial performance of the underlying investments but also to the fluctuations in 3iN's share price. The direct exposure to the underlying investments is shown in the charts that follow.

The underlying infrastructure portfolio is weighted to the UK and Europe, with 68% of the underlying portfolio value in those regions. The exposure to Asia reduced in the period to 31 March 2013 as a result of the challenges faced by the Indian portfolio, primarily driven by volatile macroeconomic and market conditions in India. The three largest underlying investments are AWG – an English water supply and wastewater company, Elenia – a Finnish electricity distribution business and Eversholt, a leading UK rail rolling stock company.

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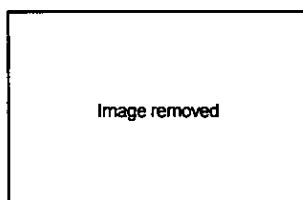
1 The underlying portfolio exposure is calculated by allocating 3iN's 31 March 2013 value across its portfolio of investments in addition to 3i Group investments in India and directly held in Europe.

Note

The number of portfolio companies is shown inside the segments of the above pie charts.

Business lines Debt Management

“The establishment of our US platform positions us well for future growth.”



Jeremy Ghose
Managing Partner and CEO 3i Debt Management

Introduction

3i's Debt Management business operates across Europe and established a presence in North America in the year. At 31 March 2013, the Debt Management team managed 24 funds and accounted for £6.4 billion of assets under management, in which 3i's investment was valued at £81 million.

Debt Management's returns are consequently driven by fee income from managing third-party capital. The profitable growth in AUM seen in this business line is a key contributing factor to improving 3i's ability to cover operating expenses with cash income.

The Fraser Sullivan transaction, completed in September 2012, established a 3i Debt Management platform in the US and added US\$3.1 billion of AUM from transferred funds and two new fund launches. Access to the attractive and liquid US market is important in developing Debt Management into a leading global manager of credit.

The team of 45, including 28 investment professionals, is currently based in London and New York and invests in the debt of c. 550 businesses at any one time across Europe and North America.

3i intends to increase its investment in Debt Management funds to c. 10% of the assets under management in this business line over time, from the 11% at 31 March 2013.

Business model

3i Debt Management specialises in the management of third-party capital, investing in non-investment grade debt issued by medium and large European and North American companies.

The strategy is built around the following components:

- gaining access to investment opportunities through relationships with primary debt providers and private equity sponsors,
- in-depth credit analysis of each opportunity and close monitoring of the existing portfolio using analysts specialised by sector, and
- generating management fee income and incentive fees for strong performance by raising third-party capital to grow assets under management.

The main driver of returns is fees earned from managing the underlying CLOs and debt funds, supplemented by the returns on 3i's investment in those funds. During the year, the Invesco and Fraser Sullivan transactions added significant additional revenue streams.

Business lines – Debt Management

Performance for the year

Table 15 Returns from Debt Management

	2013 £m	2012 £m
For the year to 31 March		
Realised profits over value on the disposal of investments	5	1
Unrealised profits/(losses) on the revaluation of investments	2	(3)
Portfolio income	5	3
Gross portfolio return	12	1
Gross portfolio return %	28.0%	7.1%
Fees receivable from external funds	31	32
Net carried interest	(7)	1
Operating expenses	(32)	(31)
Net portfolio return	4	3
Net portfolio return %	9.5%	21.4%

Debt Management returns are driven by fee income rather than capital returns. However, gross portfolio return was strong as the underlying investments continued to perform well and the demand for yield by investors drove valuations higher. A gross portfolio return of £12 million, or 28.0% of opening portfolio, was higher than the previous year (2012: £1 million, 7.1%) and was driven from only £74 million of proprietary capital invested.

Realised profits of £5 million relate to realised trading gains within Palace Street I, the European Credit Opportunities Fund. Portfolio income of £5 million (2012: £3 million) increased as a result of increased distributions from our holdings in the CLO funds.

Unrealised profits at 31 March 2013, primarily based on broker quotes, were positive at £2 million (2012: £(3) million) due to improved underlying performance in the CLO funds.

This portfolio performance added to the growing underlying profits from managing the debt funds. Fees of £31 million were in line with the prior year (2012: £32 million) although grew on an underlying basis.

Fees included £6 million of catch-up fees relating to improved fund performance as performance hurdles were met and accrued subordinated fees became payable. We received £11 million of similar fees in the prior period. We do not expect to receive material similar fees in the future. Fee income of £31 million included £4 million relating to fee income earned on the CLO contracts acquired from Invesco in August 2012 and £3 million of income from Fraser Sullivan contracts. Since the establishment of the US platform in August 2012, we successfully launched two CLOs, Jamestown I, a US\$450 million CLO, and Jamestown II, a US\$500 million refinancing of an existing CLO. These two fund launches are expected to increase fee income by c US\$3 million per annum. A detailed review of 3i's US expansion is shown on the opposite page.

Costs of £32 million included £6 million of non-cash amortisation costs and £2 million of due diligence costs relating to acquisitions. Underlying costs continue to be managed closely and include the addition of investor relations resource to the team in the year as we pursue expansion in this business line. On an accounting basis, the Debt Management business is operationally neutral, with operating expenses of £32 million exceeding fees of £31 million by £(1) million (2012: £1 million). However, at an underlying level, excluding non-cash accounting adjustments for amortisation and one-off due diligence costs, fees exceeded operating expenses by £7 million (2012: £9 million).

Debt Management – 3i's US business

Following the acquisition of the European CLO business in February 2011, the acquisition of a similar US business was identified as critical to develop a leading global debt management business

An attractive market opportunity

The US is a highly attractive credit market given its size and liquidity. The CLO market in the US has recovered strongly since the credit crisis and issuance in 2012 at US\$53.5 billion was the highest level in four years. New issuance in Q1 2013 continued this momentum at US\$26.3 billion.

A strong platform

Following an in-depth analysis of the US market over 18 months, and having considered a number of other opportunities, we entered into a strategic transaction with Fraser Sullivan, a leading specialist US CLO manager. This established 3i's Debt Management platform in the US. At the time of the transaction, Fraser Sullivan was managing US\$2.5 billion of assets comprising six CLO funds, one credit opportunity fund and one senior loan fund.

Fraser Sullivan was founded in 2005 and has an experienced team of investment professionals that has largely worked together since the firm's inception led by John Fraser and Tighe Sullivan. The company was at the forefront of the US CLO market recovery and has raised seven new issue CLOs since 2009.

We were all deeply saddened to hear of the tragic passing of Tighe Sullivan in October 2012. Tighe had joined 3i in August 2012 as co-head of the US business and was excited to be part of 3i. The growth in AUM since then is a testament to the strength of the team John and Tighe had built.

Immediate growth

3i Debt Management US was established in August 2012 and the transaction with Fraser Sullivan was completed in September 2012. In November 2012 we launched our first US CLO, Jamestown I, a US\$450 million CLO followed by Jamestown II, a US\$500 million CLO in February 2013. Jamestown I is a new fund while Jamestown II is a refinancing of Fraser Sullivan CLO V, a US\$400 million CLO launched in February 2011 that had reached the end of its two-year reinvestment period.

The refinancing extended the investment period of the CLO fund, increased its size by US\$100 million and improved the fee economics for 3i. This early growth demonstrates the strength of our platform and our capabilities to successfully launch and close new funds.

As at 31 March 2013, 3i Debt Management US had US\$3.1 billion of assets under management, comprising seven CLO funds, one credit opportunity fund and one senior loan fund. All funds previously managed by Fraser Sullivan are now managed by 3i Debt Management US. We expect fee income of approximately £8 million in the next financial year and for this to be substantially greater than costs.

Well positioned

3i Debt Management is well positioned to grow, with a leading track record and a strong brand. The US business provides 3i the opportunity to raise new CLO funds and managed accounts and to diversify into complementary products, to generate increased fee income.

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John Fraser
Managing Partner, 3iDM US
Debt Management

John is Managing Partner of 3i Debt Management US and joined 3i in September 2012 following the establishment of 3i's Debt Management platform in the US. John co-founded Fraser Sullivan with Tighe Sullivan in 2005.

Prior to co-founding Fraser Sullivan, John was a Managing Director and Partner with Angelo, Gordon & Co., L.P. from 1997 to 2005, where he started the firm's leveraged loan investment management business and served as portfolio manager of five leveraged loan funds since their inception.

Before joining Angelo, Gordon & Co., L.P. John gained deep leverage loan experience at Cypress Tree Investment Management, Merrill Lynch Asset Management and Chase Manhattan Bank.

More at www.3i.com

Business lines – Debt Management

Table 16 Assets under management

European CLO funds

	Closing date	Reinvestment period end	Maturity date	Par value of fund at launch ¹	Realised equity money multiple ²	AUM	Annualised equity cash yield ^{3,4,5}
Harvest CLO I	Apr-04	Mar-09	Mar-17	€514m	0.7x	€198m	7.8%
Harvest CLO II	Apr-05	May-12	May-20	€540m	1.0x	€492m	12.9%
Harvest CLO III	Apr-06	Jun-13	Jun-21	€650m	0.6x	€615m	9.6%
Harvest CLO IV	Jun-06	Jul-13	Jul-21	€750m	0.7x	€716m	10.6%
Harvest CLO V	Apr-07	May-14	May-24	€632m	0.2x	€607m	4.1%
Windmill CLO I	Oct-07	Dec-14	Dec-29	€500m	0.3x	€477m	6.1%
Petrusse CLO	Jun-04	Sep-09	Dec-17	€295m	0.4x	€74m	4.8%
Alzette CLO	Dec-04	Dec-10	Dec-20	€362m	0.6x	€150m	7.5%
Garda CLO	Feb-07	Apr-13	Apr-22	€358m	1.0x	€333m	15.8%
Coniston CLO	Aug-07	Jun-13	Jul-24	€409m	0.6x	€367m	11.4%
Axius CLO	Oct-07	Nov-13	Nov-23	€350m	0.2x	€312m	4.1%
						€3,670m	Average 8.6%

US CLO funds

Fraser Sullivan CLO I	Mar-06	Mar-12	Mar-20	US\$400m	1.3x	US\$364m	19.9%
Fraser Sullivan CLO II	Dec-06	Dec-12	Dec-20	US\$485m	1.2x	US\$483m	22.7%
COA Caerus CLO	Dec-07	n/a	Dec-19	US\$242m	1.1x	US\$244m	23.1%
Fraser Sullivan CLO VI	Nov-11	Nov-14	Nov-22	US\$409m	0.2x	US\$402m	16.4%
Fraser Sullivan CLO VII	Apr-12	Apr-15	Feb-21	US\$450m	0.1x	US\$452m	18.0%
Jamestown CLO I	Nov-12	Nov-16	Nov-24	US\$450m	n/a	US\$450m	n/a
Jamestown CLO II	Feb-13	Jan-17	Jan-25	US\$500m	n/a	US\$500m	n/a
						£1,907m	Average 20.0%

	Closing date	Reinvestment period end	Maturity date	Original fund size	Realised equity money multiple ²	AUM	Annualised equity cash yield ^{3,4,5}
Other funds							
Vintage I	Mar-07	Mar-09	Jan-22	€500m	1.8x	€492m	4.6%
Vintage II	Nov-11	Sept-13	n/a	US\$400m	n/a	US\$263m	1.3%
Palace Street I	Aug-11	n/a	n/a	n/a	0.4x	€75m	17.6%
Friday Street	Aug-06	Aug-08	Aug-14	€300m	0.1x	€114m	2.0%
COA Fund	Nov-07	n/a	n/a	n/a	n/a	US\$148m	(4.2)%
Senior Loan Fund	Jul-09	n/a	n/a	n/a	n/a	US\$57m	10.0%
						£863m⁶	
Total						£6,440m	

1 Includes par value of assets and principal cash amount

2 Multiple of total equity distributions over par value of equity at launch

3 Average annualised returns since inception of CLOs calculated as annualised cash distributions over par value of equity. Excludes unrealised equity remaining in CLO

4 Vintage I & II returns is shown as gross money multiple which is cash returned to the Fund plus value as at 31 March 2013 as a multiple of cash invested

5 The annualised returns for the COA fund and Senior Loan Fund are the annualised net returns of the Funds since inception

6 The COA Fund AUM excludes the market value of investments the fund has made in 3i US Debt Management CLO funds (US\$131 million as at 31 March 2013)

Assets under management

The AUM for the Debt Management funds is typically based on the period end net asset value of the fund. The exception is Palace Street I where AUM is based on the commitment to the Fund. AUM grew strongly to £6.4 billion (2012: £3.4 billion).

In August 2012, 3i acquired five CLO contracts from Invesco, which added £1.1 billion of AUM. Two of these funds are now past their reinvestment period and AUM reduced, following distributions to £1.0 billion at 31 March 2013.

The establishment of a US platform in September 2012 led to additional AUM of US\$359 million relating to the US Senior Loan Fund and the COA Fund. Since establishing the platform, two new vehicles were launched: Jamestown I, a new US\$450 million CLO and Jamestown II, which was a refinancing of an existing Fraser Sullivan CLO on preferential terms and with an enlarged size. During March 2013, we also completed the investor consent process for Fraser Sullivan's remaining funds and transferred a further five CLOs to 3i's management. At 31 March 2013, the AUM of the US platform was £2.0 billion.

Priorities for the year ahead

Following the successful launch of Jamestown I and II in the year, further launches of CLOs in the US and potentially Europe are a priority.

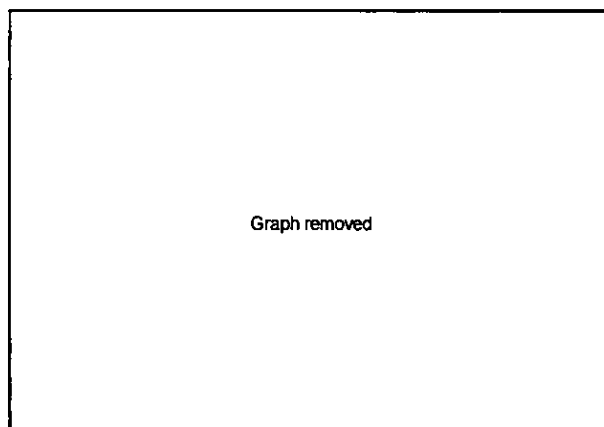
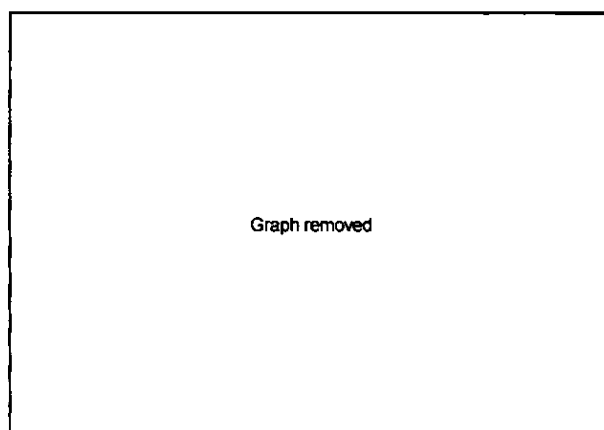
In addition to CLOs, the Debt Management team intends to diversify into other debt funds, raising additional capital through the European Credit Opportunities Fund and the US Senior Loan Fund.

A focus on costs will continue to ensure fees exceed operating expenses.

Finally, consideration will be given to further inorganic growth opportunities where fee income from acquired management contracts or platforms would be incrementally profitable.

Portfolio

The portfolios of non-investment grade debt held by the European and US managed CLOs are predominantly held in northern European and North American companies. Chart 13 details the underlying portfolio by region. Exposure in both value and number to the more challenging markets of southern Europe is limited. The portfolio is well diversified by sector with no single sector accounting for more than one third of the portfolio. Chart 14 details the underlying portfolio by sector.



Note

The number of portfolio companies is shown inside the segments of the above pie charts.

Financial review

Returns

The gross portfolio return measures the performance of the investment portfolio. Net portfolio return includes additional income generated from managing external funds, through management fees and carried interest receivable, less the costs of running our business and carried interest paid to our investment teams. Finally, total return is the net portfolio return, less our funding costs and the impact of foreign exchange and other balance sheet factors.

Each of these aspects of our returns is considered in greater detail in this review.

Total return for the Group was £373 million which represented a 14.2% return on opening shareholders' funds and a significant improvement on the prior year (2012: £(656) million, (19.5)%). Gross portfolio return of £546 million (2012: £(329) million) demonstrated the better performance of the Group's portfolio, supported by good cash realisations above opening valuations. The Group also benefited from the weakening of sterling against the euro and dollar during the year and recognised net foreign exchange gains in the year of £30 million (2012: £(49) million). Finally, total return included the one-off cost of reorganising the Group (£30 million) and the costs of accelerating the gross debt reduction (£25 million).

Table 17 Total return year to 31 March

	2013 £m	2012 £m
Realised profits over value on disposal of investments	195	23
Unrealised profits/(losses) on revaluation of investments	250	(498)
Portfolio income		
Dividends	43	47
Income from loans and receivables	54	95
Fees receivable	4	4
Gross portfolio return	546	(329)
Fees receivable from external funds	71	89
Carried interest receivable from external funds	4	(15)
Carried interest and performance fees payable	(19)	10
Operating expenses	(170)	(180)
Net portfolio return	432	(425)
Net interest payable	(91)	(91)
Movement in the fair value of derivatives	(6)	(19)
Net foreign exchange movements	30	(49)
Pension actuarial gain/(loss)	17	(67)
Other (including taxes)	(9)	(5)
Total comprehensive income ("Total return")	373	(656)
Total return on opening shareholders' funds	14.2%	(19.5)%

Gross portfolio return

Realised profits

Realised profits at £195 million in the year to 31 March 2013 (2012 £23 million) demonstrated the strong performance of the portfolio in the year and were achieved at an uplift over opening value of 47% (2012 3%)

Table 7 on page 27 details realisations in the period and sets out the accounting uplift reflected in the annual total return and the longer term cash-to-cash results. The Private Equity realisations completed in the year produced a money multiple of 2.1x

Unrealised value movements

Table 18 Unrealised profits/(losses) on revaluation of investments year to 31 March

	2013 £m	2012 £m
Private Equity and Infrastructure		
Earnings based valuations		
Performance	141	3
Multiple movements	36	(267)
Other bases		
Provisions	4	(138)
Uplift to imminent sale	24	-
Discounted Cash Flow	(41)	(1)
Other movements on unquoted investments	73	(72)
Quoted portfolio	11	(20)
Debt Management		
Broker quotes	2	(3)
Total	250	(498)

Note: The table above no longer allocates value movements between loan and equity instruments as we believe it gives a clearer view of performance to combine the two under the "Earnings based valuations" heading. The split of value movement between loans and equity instruments is still shown in note 3 to the accounts. Value movements in loan instruments were previously labelled as impairments.

Performance

The performance category measures the impact of earnings and net debt movements for the portfolio companies valued on an earnings basis. In general, when valuing a portfolio investment on an earnings basis, the earnings used in the 31 March 2013 valuations are the last 12 months management accounts data to December 2012, unless the current year forecast indicates a lower maintainable earnings level. Where appropriate, adjustments are made to earnings on a pro forma basis for acquisitions, disposals and non-recurring items. In the case of one company Action, which is experiencing significant growth due to its store roll-out programme, a run-rate adjustment was made to its earnings to reflect profitability of opened stores for valuation purposes.

Improvements in the performance of the portfolio valued on an earnings basis resulted in an increase in value of £141 million (2012 £3 million). This was driven by an aggregate increase in earnings used to value the portfolio of 1% and reductions in leverage¹ to 3.2x from 3.4x at the beginning of the year. Value weighted earnings, the most relevant measure of NAV impact, increased by 10% in the year, demonstrating that the portfolio's largest assets are delivering strong improvements in performance.

Multiple movements

Multiples used to value the portfolio showed improvement in the latter part of the financial year following the general recovery in stock markets. The weighted average EBITDA multiple increased to 8.8x pre-marketability discount (2012 8.2x) and to 7.9x post discount (2012 7.5x). This 7% increase in the year generated an increase in value of £36 million (2012 £(267) million) for those assets valued on an earnings basis.

Provisions

A provision is recognised where we anticipate that there is a 50% or greater chance that the Group's investment in the portfolio company will fail within the next 12 months. The £4 million net reversal of provisions in the period is attributable to the improvement in outlook for one company which had previously been provided for, resulting in a modest increase in value, offset by the impact of two companies which were written down to nil. Each movement is less than £10 million.

Uplift to imminent sale

Portfolio companies which are currently in a negotiated sales process are valued on an uplift to imminent sale basis. At 31 March 2013, three portfolio companies were in an advanced sales process, generating a value increase of £24 million (2012 nil). Cash has since been received for one of these portfolio companies, with the cash expected on the other two portfolio companies following regulatory approval.

Discounted Cash Flow

The Discounted Cash Flow (DCF) valuation basis is used to value portfolio companies with predictable and stable cash flows, typically infrastructure investments. As at 31 March 2013, there were 11 portfolio companies valued using the DCF valuations basis, the majority of which relate to the Group's Indian portfolio. The continued challenging environment in India has contributed to an unrealised loss for investments valued using DCF models of £41 million in the year (2012 £(1) million).

¹ Net debt to EBITDA used to value portfolio companies

Financial review

Other

Where a different valuation basis is more appropriate for a portfolio company, the 'other' category is used to determine fair value for example the sum of the parts of the business or industry specific methods. The total 'other' increase in value was £73 million in the year to 31 March 2013 (2012: £(51) million) predominantly driven by a value increase in one company which was supported by a market valuation metric.

Quoted portfolio

The quoted portfolio was valued at £431 million and now represents 13% (2012: 17%) of the Group's total portfolio following the sale of Norma in the period. The Group's 34% investment in 3i Infrastructure plc represents the majority of the quoted portfolio at £398 million. 3i Infrastructure plc's share price increased by 7% in the year, resulting in value growth of £24 million. However, this was partially offset by a £13 million value reduction in the remaining quoted portfolio resulting in a net increase in the quoted portfolio value of £11 million in the year to 31 March 2013 (2012: £(20) million).

Broker quotes

The Debt Management business line has investments in a number of the CLOs which the Group manages as well as in the Credit Opportunities Fund, Palace Street I. These assets valued using broker quotes increased in value by £2 million in the year (2012: £(3) million).

Table 19 Proportion of portfolio value by valuation basis as at 31 March 2013

	%
Earnings	67
Imminent sale	2
Quoted	13
Discounted Cash Flow	7
Other	9
Broker quotes	2

Portfolio income

Table 20 Portfolio income year to 31 March

	2013 £m	2012 £m
Dividends	43	47
Income from loans and receivables	54	95
Net fees receivable	4	4
Portfolio income	101	146
Received as cash	62	60
Cash income/opening portfolio (cash income yield)	1.9%	1.5%

Income from the portfolio was £101 million in the year to 31 March 2013 (2012: £146 million). Dividends of £43 million were received (2012: £47 million), including £18 million from 3i Infrastructure plc, £10 million from Quintiles, a US Private Equity healthcare investment and £4 million from Debt Management investments. Interest income was materially lower in the period at £54 million (2012: £95 million) due to the net divestment position for Private Equity, the effect of restructurings and a small number of investments, particularly in Spain, where the interest accruing was provided for as the fair value of the investment was judged to be below that of the principal loan value.

A further £4 million in net deal fees was received in the year (2012: £4 million) principally relating to fees received on completing new investments and annual monitoring fees paid by portfolio companies.

Portfolio income received as cash in the year was £62 million (2012: £60 million), reflecting the relatively high proportion of capitalised interest generated by the Private Equity portfolio.

Net portfolio return

Table 21 Net portfolio return year to 31 March

	2013 £m	2012 £m
Gross portfolio return	546	(329)
Fees receivable from external funds	71	89
Net carried interest and performance fees payable	(15)	(5)
Operating expenses	(170)	(180)
Net portfolio return	432	(425)

Fees receivable from external funds

Fees earned from external funds of £71 million in the period were lower than the prior year (2012 £89 million)

Our managed Private Equity funds generated fee income of £19 million (2012 £32 million) the decline reflecting the Growth Capital Fund coming to the end of its investment period in December 2012 and the full year effect of Eurofund V's investing period ending in November 2011

Our Debt Management business line continued to generate strong fund fee income of £31 million in line with the prior year (2012 £32 million) Fee income grew on an underlying basis due to the one-off catch up of deferred subordinated fees as a result of the strong performance of the CLOs in the prior year The £31 million fee income includes £4 million of fees generated from the acquisition of five CLO management contracts from Invesco in the year The impact from the Fraser Sullivan transaction was relatively small as the transaction completed part way through the year and was offset by due diligence and other acquisition costs We recognised the subordinated fees on 16 out of 18 CLO funds at 31 March 2013 demonstrating their continuing solid performance

Advisory and management services to 3i Infrastructure plc and the 3i India Infrastructure Fund generated £21 million of fee income in the year (2012 £25 million) This was lower than last year as a result of lower investment activity by 3i Infrastructure plc and the 3i India Infrastructure Fund reaching the end of its investment period in November 2012

Net carried interest and performance fees payable

Carried interest and performance fees are accrued on the realised and unrealised profits generated taking relevant performance hurdles into consideration

Net carried interest and performance fees payable in the year were lower than might be expected given the improved portfolio performance and realisations with a net payable amount of £15 million (2012 £5 million payable), as the portfolio value movement in the period was primarily in assets where the performance hurdle has not yet been achieved The prior year period reflected a net reversal of carry payable and receivable given the gross portfolio loss in that period

Operating expenses

Table 22 Operating expenses year to 31 March

	2013 £m	2012 £m
Operating expenses	170	180
Operating expenses excluding implementation costs	140	171
Run-rate operating expenses at 31 March	140	185
Run-rate operating expenses/AUM ¹	1.1%	1.8%
Operating expenses/AUM ¹ (excluding implementation costs)	1.3%	1.6%

¹ Run-rate or actual operating expenses as a percentage of closing AUM

Operating expenses were £170 million (2012 £180 million) and included implementation costs of £30 million in respect of redundancy office closures and organisational changes (2012 £9 million) The reduction in costs and the result of the Invesco and the Fraser Sullivan transactions and two new US CLOs launched in the year resulted in operating expenses per AUM decreasing to 1.3% (2012 1.6%)

Run-rate expenses are calculated to exclude implementation costs and the timing effect of changes taking place part way through the year By doing so the run-rate reflects the ongoing annual cost of running the business assuming no further changes

We have achieved annualised run-rate cost savings of £51 million at 31 March 2013 This represents a reduction of 28% against the annualised run-rate costs of £185 million at 31 March 2012

However during the year we entered into several corporate transactions and consequently the perimeter of 3i's operating cost base has changed The acquisition of European CLO management contracts from Invesco and the establishment of a Debt Management platform in the US through the transaction with Fraser Sullivan have increased the annualised run-rate operating costs at 31 March 2013 by £7 million These additional costs are expected to be more than offset by the aggregate of the cash income generated by these additional business activities

Run-rate expenses on a like-for-like basis excluding the Invesco and Fraser Sullivan transactions, are £134 million significantly lower than the target of £145 million set out in June 2012 The total run-rate at March 2013, including the corporate transactions was £140 million, or 1.1% of closing AUM

Financial review

Annual operating cash profit

Table 23 Annual operating cash profit year to 31 March

	2013 £m	2012 £m
Third party capital fees	70	91
Cash portfolio fees	4	7
Cash portfolio dividends and interest	58	53
Cash income	132	151
Operating expenses ¹	170	180
Less Restructuring costs	(30)	(9)
	140	171
Annual operating cash profit/(loss)	(8)	(20)

1 Operating expenses include accruals the effect of which is not considered material

In June 2012 the Group set an objective of generating cash income from third-party fees and portfolio income, sufficient to cover the operating expenses incurred in the year, prior to restructuring costs. We call this Annual operating cash profit.

The full benefits of the cost reduction programme will be seen in the next financial year with the implementation costs and timing effects largely negating the immediate savings in the year to 31 March 2013. The annualised run-rate operating expenses of the business at 31 March 2013 are £140 million, or 11% of closing AUM. This includes the annual costs relating to corporate transactions completed in the period which are expected to be more than offset by the corresponding fee income.

Headcount at the end of 31 March 2013 reduced by 168 to 267 (2012: 435) prior to the increases in headcount from strategic transactions in Debt Management. This exceeds the target, set in June 2012, to reduce staff by more than 160 by 31 March 2013. Total headcount, including additional employees added from strategic transactions in Debt Management, was 282 at 31 March 2013.

The annual operating cash profit position improved from a loss of £20 million in the year to 31 March 2012 to a loss of £8 million in the year to 31 March 2013.

Total return

Net interest payable

Net interest payable for the year was £91 million (2012: £91 million) and included an additional £25 million of interest cost which was accelerated into the period as a result of the early settlement of bonds which were scheduled to mature in later periods.

Interest receivable reduced to £6 million (2012: £12 million) in the year as a result of the lower level of cash and deposits held by the Group.

Having reduced gross debt to £1,081 million at 31 March 2013 and further to £917 million at 30 April 2013, the gross interest cost in the year to 31 March 2014 is expected to be below £60 million, a reduction of 42% compared to FY2012.

Derivative movements

The Group used foreign exchange contracts as part of its general hedging programme. There was a £6 million loss recognised from the fair value movement of the derivatives during the year (2012: £19 million loss) principally relating to long-term legacy interest rate swaps.

Net foreign exchange movements

The Group maintained its partial hedging policy through the year, using core currency borrowings and derivatives as appropriate. The hedging ratio of the euro denominated portfolio at 31 March 2013 reduced to 49% (2012: 89%) as a result of the reduction in euro denominated debt. Hedging of the US dollar portfolio also reduced to 54% (2012: 65%). The net foreign exchange gain of £30 million (2012: £49 million loss) was driven by the weakening of sterling against the unhedged element of the euro (1.5%) and US dollar (5.5%). The outcome of a review of hedging strategy during the year is discussed on page 49.

Pensions

The IAS 19 valuation of the Group's UK defined benefit pension scheme was negatively impacted by a reduction in the discount rate, driven by a reduction in AA corporate bond yields and an increase in inflation rates, resulting in an increase in the value of the scheme's liabilities. This was, however, offset by the strong performance of equity markets and resulted in an actuarial gain of £17 million (2012: £(67) million) for the year. A total of £36 million was paid to the fund in April 2012, being the final payment in relation to the last triennial funding review which was finalised in September 2011. The accounting effect of this payment on total return was included in the year to 31 March 2012. As part of the same review, in April 2012, the Group finalised the terms of a guarantee to the scheme in relation to contingent assets, as detailed in note 31 on page 119. The next triennial valuation will be carried out shortly, with an effective date of 30 June 2013.

Balance sheet

Portfolio value

Table 24 Portfolio value movement by business line

Business lines	Opening portfolio value 1 April 2012 £m	Investment £m	Value disposed £m	Unrealised value movement £m	Other movement ¹ £m	Closing portfolio value 31 March 2013 £m
Private Equity ²	2,634	234	(385)	250	(26)	2,707
Debt Management ³	42	31	5	2	1	81
Infrastructure	528	5	(31)	(2)	7	507
Total	3,204	270	(411)	250	(18)	3,295

¹ Other relates to foreign exchange and the provisioning of capitalised interest

² Non-core has been combined with Private Equity

³ The Palace Street 1 Fund presents investment net of realisations

Strong realisations in the year were offset by investment of £270 million and unrealised value growth of £250 million resulting in a modest increase in the total portfolio value to £3,295 million at 31 March 2013 (2012 £3,204 million)

Table 25 Gearing and borrowings as at 31 March

	2013	2012
Gross debt	£1,081m	£1,623m
Net debt	£335m	£464m
Gearing	11%	18%

The Group further reinforced its conservative balance sheet approach, with gross debt reducing by a third in the year to £1,081 million (2012 £1,623 million). Gross debt reduced primarily due to the repayment of £223 million of the €500 million floating rate note early repayments of £283 million of private placements, £15 million market purchases of the €350 million bond and repayment of a £50 million term loan drawn under a £200 million bilateral credit facility

Net debt at £335 million reduced following net divestment (2012 £464 million). Gearing consequently reduced to 11% at 31 March 2013 (2012 18%) as a result of both the decrease in net debt and the increase in shareholders funds to £2,934 million (2012 £2,627 million) following the total return of £373 million in the year to 31 March 2013

Since the end of March, we repaid a further £164 million of debt which resulted in a gross debt balance of £917 million as at 30 April 2013 significantly ahead of the target to reduce gross debt to below £1 billion by 30 June 2013. This repayment has no impact on net debt or gearing

Foreign exchange hedging

As a result of the reduction in gross debt, and the increased concentration of the portfolio into a smaller number of individually significant assets the hedging strategy was reviewed during the year. The use of derivatives to hedge currency movements on a portfolio basis will be reduced over time. Foreign exchange risk will now be considered as an integral part of the investment process rather than managed at the Group level via structural hedging programmes. Specific hedging on entry or exit of an investment may be used as appropriate

Liquidity

Liquidity reduced in the year to £1,082 million (2012 £1,653 million). This comprised cash and deposits of £746 million (2012 £1,159 million) and undrawn facilities of £336 million (2012 £494 million). The cash balance reduced primarily as a result of the repayment of debt in the year with cash inflows from divestment activity being offset by investment and other operating cash flows. The repayment of £164 million of gross debt after the period end had no impact on liquidity as it was the repayment of drawings under one of the committed facilities providing a currency hedge. Cash reduced by £164 million and undrawn facilities increased by a corresponding amount

Diluted NAV

The diluted NAV per share at 31 March 2013 was £3.11 (2012 £2.79). This was driven by the total return in the year of £373 million (2012 £656 million) and partially offset by dividend payments in the year of £76 million (2012 £49 million)

Risk

Principal risks and risk management

The Group faces a range of risks and uncertainties which could materially affect its financial performance and/or the achievement of its strategic objectives

This section describes our approach to risk management and the process and governance framework that we have in place to identify, manage and monitor risks. This is followed by a summary description of the principal risk areas facing the Group and the corresponding mitigating actions that are in place

Approach to risk management

Risk is a part of doing business. We identify the risks involved and ensure that these are carefully considered and that the level of risk taken is appropriate in relation to its potential impact on the Group's financial performance and the achievement of the Group's strategic objectives. Ultimately we seek to achieve an appropriate balance between taking risk and generating returns for our shareholders

Our approach to risk management is therefore closely aligned with the Group's strategy and objectives. When considering the Group's strategic direction, the Board reviews the level of risk to be taken. Adherence to this level of risk appetite is monitored by the Group Risk Committee

On 29 June 2012 following a strategic review of the Group the future strategy of 3i was announced. This included the launch of a major restructuring and cost reduction programme. Further information on this can be found in the Strategy and business model section of this report. The risk review framework and governance structure have been modified and refined to reflect the new strategic objectives and the changes to the organisational structure of the Group. These changes are described below

Risk management process and governance structure

3i's risk management process and associated governance structure are designed to ensure that there is an effective process and a clear organisational structure with well defined responsibilities to identify, manage and monitor risk

The process of identifying, managing and monitoring risks, and assessing their potential impact occurs at a number of levels throughout the Group

The **Board** is ultimately responsible for risk management which includes the Group's risk governance or oversight structure and for maintaining an appropriate internal control framework

Responsibility for oversight of risk management is delegated to the **Group Risk Committee** which considers the Board's appetite for risk and any specific limits set. The Group Risk Committee maintains the Group risk review, which summarises the Group's principal risks and associated mitigating actions

The Group risk review is a result of thought and input from both management and professionals across the Group, including the Executive Committee. The Group risk review is considered and refined at meetings of the Group Risk Committee and is reviewed by the Audit and Compliance Committee on a quarterly basis. It is also reviewed by the Board with a particular focus on the potential impact on the setting and execution of the Group's strategy

The **Audit and Compliance Committee** is updated at each meeting on the outputs of the latest Group Risk Committee meeting and has the opportunity to contribute views or raise questions

The Group's risk management process and governance structure are outlined in the diagram shown on page 51. Members of each of the Committees are listed on page 63

The Group's reporting cycle and the dates of key meetings are co-ordinated to ensure that appropriate risk and strategic reviews are performed in alignment with the timetable for meetings of the Board and of the Audit and Compliance Committee

Further details on the risk management framework can also be found in 3i's Pillar 3 disclosures at www.3i.com

Changes and improvements

During the year the Group has continued to refine and strengthen its risk management framework and process particularly in light of the strategic review and the announcement of the Group's new strategy and objectives in June last year

For example a key part of our programme of asset management improvement initiatives has been the strengthening of our investment review process with the introduction of a new single Investment Committee which considers the full spectrum of decisions from investment through to divestment of portfolio companies. The Group has also implemented a new vintage control policy in respect of its own balance sheet investing activity. This is designed to minimise the risk of over-investing at the top of the private equity cycle in the future

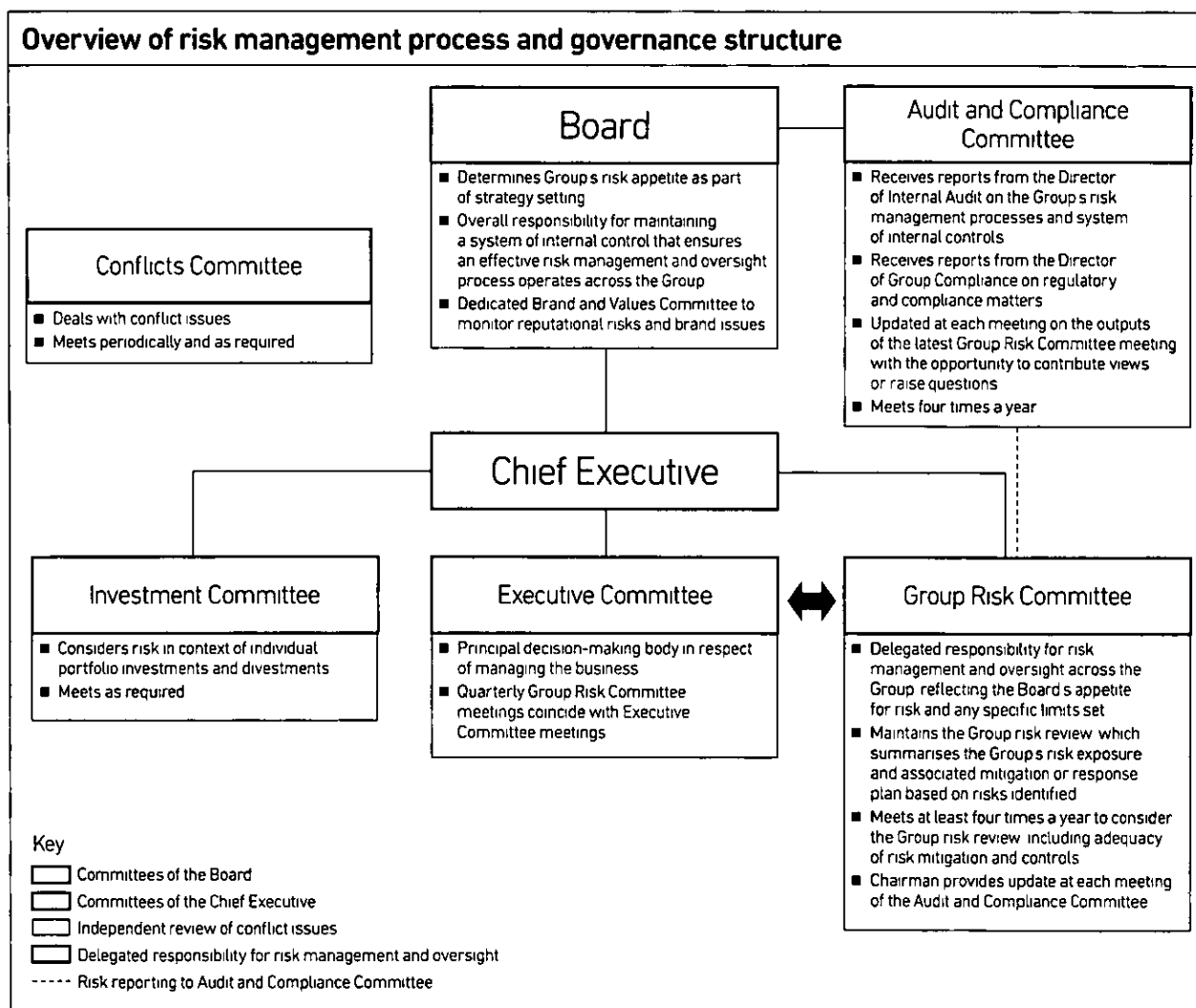
In addition, a number of improvements have been made to our reporting and monitoring processes, including the introduction of new monthly portfolio performance dashboards within Private Equity. The Group's Investment Committee and Private Equity Partners now meet monthly to review these dashboards and to decide on actions

As part of the new strategy, the Group's organisational structure has been simplified and processes have been streamlined. A number of committee structures have been rationalised in order to reduce organisational complexity and to enable better and more efficient decision-making. A new leadership team, the Executive Committee has been established by the Chief Executive as the principal day-to-day decision-making body in respect of managing the business

Furthermore, the Treasury Management Committee was discontinued, and replaced with a Treasury Transactions Committee of the Board to provide formal approval for specific treasury related transactions. Day-to-day treasury matters are handled by the Finance Director and Group Treasurer, within the limits delegated by the Board. Key treasury and funding risks continue to be overseen by the Group Risk Committee. The Operational Risk Forum was similarly discontinued and its responsibilities assumed by the Group Risk Committee. Finally, the responsibilities of the Corporate Responsibility Committee were assumed by the Brand and Values Committee.

The Group Risk Committee continues to meet quarterly to coincide with meetings of the Executive Committee. The quarterly Group risk review has recently been enhanced with a clearer link between the identified risks and the Group's strategic objectives, as well as the monitoring of key financial and strategic metrics which are indicators of those risks. This includes the application of the vintage control policy and associated analysis and asset allocation data.

In addition, we have designed new dashboards which track our financial performance and progress against our new strategic objectives at a Group level and for each of our business lines. These dashboards are now updated and reported monthly. Going forward, these will help the Group Risk Committee assess each risk and highlight whether risks are increasing or decreasing. We expect that this process will continue to be refined, and for example, we are currently reviewing our risk management approach in the context of the European AIFM Directive, which comes into force on 22 July 2013.



Principal risks and risk management

Review of principal risks

The disclosures on the following pages should not be regarded as an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of those principal risks which the Group currently faces and which the Board believes have the potential to materially impact the Group's financial performance and/or the achievement of its strategic objectives

External

The key external risks affecting 3i over the course of the financial year remain centred on the impact of the continuing challenging macroeconomic and market conditions, especially in Asia and Europe. Specific areas of risk considered by the Group Risk Committee include ongoing Eurozone instability, the impact of government austerity measures and slowing of growth rates in parts of Asia and Europe.

These uncertain conditions impact 3i's operating environment in different ways and to varying degrees, reflecting both 3i's geographical diversity and the different economic drivers of its three investment platforms: Private Equity, Infrastructure and Debt Management.

Fundraising conditions are difficult for the Private Equity industry as a whole, owing to a combination of a funding overhang, which continues to underpin high prices for transactions, underperformance of some recent vintages and more selective investors. General M&A activity remains relatively subdued in Europe, partly reflecting companies' preference for high levels of liquidity over investment. This also has consequences for the level of activity in the debt markets, which currently remains limited in Europe.

The integrity and transparency of financial services firms, as well as their Responsible Investing principles, are of high importance to investors. Firms that are able to differentiate themselves positively in these areas are likely to be at an advantage in the future. In recognition of this, 3i has comprehensive policies and processes. Further information is set out in the section on Corporate responsibility.

Regulatory developments continue to be monitored closely. The key development affecting 3i is the European AIFM Directive, which comes into force on 22 July 2013. This introduces a number of regulatory requirements for applicable firms and will likely require some modifications to 3i's related policies and processes. This is expected to result in additional costs to the business, however the effect on 3i is not expected to be disproportionate in the context of its sector.

Strategic

3i undertook a strategic review following the appointment of Simon Borrows as 3i's Chief Executive in May 2012, the results of which were communicated to shareholders in June 2012. This has involved a major organisational change and cost reduction programme. A key focus for the Board and the Group Risk Committee has been the assessment, mitigation and monitoring of the associated risks.

Other key strategic risks are broadly similar to last year. These include investment performance at this point of the economic cycle and the Group's funding strategy, factoring in the current external fundraising environment, expected investment and realisation levels and balance sheet management. The growth of the Debt Management business line has also been an area of focus from a risk management perspective, as it has expanded its geographical footprint and assets under management.

Investment

The Group's key investment risks remain closely linked to the economic and market conditions, described earlier

The Private Equity business line is the largest in terms of proprietary balance sheet investment. Returns can be cyclical in nature and given the current macroeconomic environment, the ability to deliver target returns can be challenging. Specific risks include the pricing of new investment opportunities, potential operational underperformance of portfolio companies impacting earnings growth and valuations exposure to movements in quoted multiples used to derive valuations, and, for more highly leveraged assets, the ability to meet debt covenant tests

A cautious and selective approach has continued to be applied to new investment over the year. The overall health and performance of the Private Equity investment portfolio has improved compared to the previous financial year and has been comparatively stable. However portfolio companies in some geographies, in particular southern Europe, where economic recovery remains challenged, and Asia, where economies have slowed significantly have been impacted by market conditions. Accordingly, some valuation reductions were required during the year. The Group's investment portfolio has also become relatively more concentrated over time, with increasing exposure to the performance of a smaller number of investments. Covenant tests and refinancing requirements across the portfolio continue to be actively monitored and managed and there has been a steady reduction in the portfolio leverage level over the year. The Group's strategic review included the implementation of six key asset management improvement initiatives aimed at enhancing the Private Equity portfolio management processes and capabilities.

Investment returns in the Infrastructure business line are driven by a combination of portfolio income and advisory and management fees, as well as capital returns. The valuation of the portfolio is influenced by the underlying performance of individual assets the resulting estimates of future cash flows, discount rates applied and the level of income distributed from those assets. There are two quoted assets in the portfolio, which are marked to market and, therefore subject to fluctuation and also some exposure to foreign exchange rate movements notably through the 3i India Infrastructure Fund. The portfolio which covers a range of sectors with different economic cycles, has shown steady operational progress in the current macroeconomic environment.

The main driver of returns for the Debt Management business line is fees earned from managing the underlying Collateralised Loan Obligation ("CLO") and other debt funds. Ongoing portfolio management is a critical area of focus. Analysts are organised by sector and the performance of each investment is monitored to ensure any issues are identified early. The various funds are well diversified by sector. The establishment of a US platform with Fraser Sullivan, a US based business, in September 2012, broadens the geographical coverage of the business beyond Europe. The impact of the economic downturn on debt markets has been particularly pronounced in Europe, where there has been a lack of primary loan issuance. Consequently, the business has not launched any new CLO funds in Europe in the last financial year, although has increased AUM through the acquisition of existing CLO management contracts from Invesco in August 2012. By contrast, US market conditions are more favourable and the business launched two CLO funds in the US in November 2012 and February 2013.

Treasury and funding

The Group continues to maintain a conservative financial structure, supported by balance sheet targets and a strong control framework.

The Group continues to target a reduction of the overall gross debt level over time. Funding requirements are evaluated on a rolling 12-month outlook, in the context of the Group's investment and capital allocation strategies, to ensure the appropriate balance between liquidity benefits against the cost of funding and to monitor the full range of refinancing options in advance of debt maturities. 3i's current credit rating is BBB stable/Baa2 stable.

Liquidity continues to be monitored on a weekly basis and there is close review of counterparty exposures. The majority of funds are placed with AAA liquidity funds and selected banking counterparties. The AAA liquidity funds are regularly evaluated to understand the nature of the underlying counterparty exposures and geographical mix.

The Group has historically used core currency borrowing to act as a natural hedge against foreign exchange exposures in the portfolio primarily in euro and US dollars, and supplemented this by the use of derivatives. However, with the reduction in the Group's gross debt and the associated funding costs, this strategy will be less effective in the future. The Board has therefore reviewed 3i's hedging strategy in the context of the Group's strategic objectives, market conditions and funding requirements and has concluded that the level of currency hedging should be reduced and the derivative programme closed down over time. Instead the Group will look to hedge specific cash transactions such as specific currency investment and divestment decisions, with specific hedging instruments. Currency risk will be assessed at the investment, rather than the Group, level. The Board will continue to review currency volatility and uncertainty and this strategy on a periodic basis.

Operational

The key operational risks facing the Group during the year relate mainly to the significant level of organisational change and cost reduction following the announcement in June 2012 of 3i's future strategy. This has included significant headcount reductions, the outsourcing of a number of functions, most notably in the area of IT services as well as systems changes and upgrades. Associated with this have been a number of process changes and reallocation of responsibilities, which have required close monitoring to ensure appropriate management of the transition risks and maintenance of a robust internal control environment.

Risk factors, oversight and operation

Risk type	Risk areas	Inherent risks	Risk mitigation
External	- External stakeholders - Reputational - Government/regulation - Market/economic	- Changes in macroeconomic variables - General health of capital markets - Exposure to new markets and investment products - Regulatory developments - Changes in government policy - Reputational risks	- Three distinct and complementary investment platforms - Diversified investment portfolio in a range of sectors with different economic cycles across geographical markets - Close monitoring of relevant regulatory and fiscal developments by in-house specialists and external advisers - Due diligence when entering new markets or business areas
Strategic	- Strategic delivery - Meeting key targets - New business opportunities - Managing communications	- Understanding and analysis of risks and rewards - Appropriateness of choice of business model and strategy - Unexpected changes in the Group's operating environment - Unanticipated outcomes versus assumptions and announced targets - Potential loss of key staff in areas critical to the Group's strategic delivery	- Periodic strategic reviews - Regular monitoring of key risks by Group Risk Committee and the Board - Monitoring of a range of key financial and strategic performance indicators and forecasts - Periodic updates of plans and underlying assumptions - Disciplined management of key strategic projects
Investment	- Profitable growth of assets under management - New investment and exit decisions - Portfolio performance - Valuations	- Market competition and asset pricing - Fund raising capability - Access to new investment opportunities - Investor capability and investment discipline - Asset valuations - Over exposure to a particular sector geography or small number of assets - Limited influence over minority investments - Investment performance track record - Reputational risks arising from portfolio related events	- Rigorous investment appraisal and approval process - Monthly asset reviews and risk assessments based on up-to-date reports - Consistent application of detailed valuation guidelines and review processes - Monitoring of investment concentration - Representation by a 3i executive on the boards of Private Equity investee companies - Implementation of asset management initiatives - Responsible Investing guidelines incorporated into investment procedures - Application of vintage control policy and asset allocation analysis
Treasury and funding	- Liquidity - Debt levels and refinancing - Foreign exchange - Counterparties	- Maintaining appropriate levels of liquidity - Capital adequacy - Managing debt levels and maturity profiles - Credit rating and access to funds - Counterparty management - Foreign exchange exposure - Interest rate exposure - Impact of volatility of investment valuations	- Weekly detailed cash flow forecasts tracked against minimum liquidity headroom - Monitoring of gross debt against target limits - Monitoring of material debt maturities within a 12 month rolling period - Periodic review of currency volatility and use of hedging - Use of "plain vanilla" derivatives where appropriate - Board reviews of the Group's treasury policy
Operational	- People processes and systems - Legal and regulatory compliance - Reputational	- Resource balance including recruitment retention and development of capable people - Alignment of remuneration and incentives - Appropriate systems processes and procedures - Adherence to tax regulations including permanent establishment risk - Change management - Complexity of regulatory operating environment and ability to influence regulatory change - Potential exposure to litigation - Reputational risks arising from operational risk incidents - Exposure to fraud - Business disruption	- Framework of core values global policies a code of business conduct and delegated authorities - Detailed policies and procedures - Rigorous staff recruitment vetting review and appraisal processes - Appropriate remuneration structures - Succession planning - Close monitoring of legal, regulatory and tax developments by specialist teams - Internal Audit and Compliance functions carry out independent periodic reviews - Business continuity and contingency planning - Implementation of asset management initiatives - Controls over information security confidentiality and conflicts of interest - Anti-fraud programme - Group-wide compensation review

Key developments

- Continuing uncertain economic conditions particularly in Asia and Europe
- Regulatory developments which may impose additional costs in particular AIFMD

Management reports

- Interim updates and results announcements
- Group management report – market review investor relations
- Group risk review
- Review of brand and trends affecting reputation
- Reputational risk log

Board reporting

- Board – pre-publication
- Board – monthly
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Brand and Values Committee – annually
- Brand and Values Committee – three times per annum

- Continued challenging market and economic conditions which could impact investment performance and therefore strategic delivery
- Continued caution on the part of third-party investors to commit to new funds
- Emergence of activist shareholders

- Group management report – financial performance and strategic progress dashboards
- New business proposals and business cases
- Group risk review
- Strategic plan and updates

- Board – monthly
- Board – as required
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Board – annual update or refresh

- Reduced Private Equity investment levels owing to a selective and measured approach to new investments
- Continued impact of current economic environment on the growth of Private Equity portfolio companies earnings and level of activity in European debt markets
- Subdued M&A market conditions

- Valuations Committee report
- Group management report – portfolio update fund performance new investments
- Long-term vintage performance update
- Periodic business updates
- Monthly portfolio monitoring dashboard
- Portfolio overview (including ESG matters)
- Group risk review

- Valuations Committee and Board – quarterly
- Board – quarterly
- Board – two times per annum
- Board – as required
- Board – monthly
- Group Risk Committee and Audit and Compliance Committee – two times per annum
- Group Risk Committee and Audit and Compliance Committee – quarterly

- Continued uncertainty within the Eurozone
- Increase in currency volatility
- Reduced gross debt levels
- Reducing derivative hedging programme over time

- Group management report – key financial highlights financial performance capital adequacy
- Group risk review
- Annual budget (and rebase)
- Financial forecasts
- Ad hoc reporting on key treasury matters
- Capital adequacy

- Board – monthly
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Board – two times per annum
- Board – three times per annum
- Board – as required
- Group Risk Committee and Audit and Compliance Committee – quarterly

- Further acquisitions in the Debt Management business requiring integration
- Changes in applicable tax and regulatory requirements eg AIFMD
- Downsizing in response to business needs and to manage costs
- New outsourcing arrangements eg IT services
- New IT system implementations

- Risk log summary
- Group risk review
- Litigation summary
- Review of 3i values
- Compliance update reports
- Internal control effectiveness review

- Group Risk Committee and Audit and Compliance Committee – quarterly
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Brand and Values Committee – annually
- Group Risk Committee and Audit and Compliance Committee – quarterly
- Group Risk Committee and Audit and Compliance Committee – annually

Corporate responsibility

Our approach and values

For 3i, corporate responsibility is about being a responsible investor, as well as a responsible company. We take responsibility for our actions, carefully consider how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices and plans.

Our approach to corporate responsibility is underpinned by our values of ambition, courage, responsibility, collaboration and integrity, which together commit us to doing the right thing in the right way.

All employees have a responsibility to be aware of, and to abide by, 3i's policies and procedures, which have been developed to guide staff and regulate the conduct of the day-to-day operations of the business. These policies and procedures include 3i's environmental, ethical and social policies, which set out a number of common sense operating principles to guide staff and to underpin 3i's values and its reputation for acting with integrity, ethically and within the law. These policies are available to all employees through 3i's portal, a web-based knowledge system. Employees are encouraged to make suggestions to improve our policies and procedures. These recommendations are formally reviewed and updated, where appropriate, on an annual basis.

Organisation and governance

3i has a policy of seeking to comply with established best practice in the field of corporate governance. The Board has adopted and promotes corporate values and Group standards, which set out the behaviour expected of employees in their dealings with shareholders, customers, colleagues, suppliers and others who engage with 3i.

Brand and Values committee

The Board's Brand and Values Committee oversees the Group's brand, corporate values, reputation, ethical approach and behaviours, together with its approach to corporate responsibility, and considers and provides recommendations and advice to the Board on broad strategy, positioning and standards concerning the Company's values and reputation.

The Brand and Values Committee comprises Sir Adrian Montague (Chairman), Simon Borrowes (Chief Executive) and Kevin Dunn (General Counsel and Company Secretary), together with two or more non-executive Directors determined by the Board from time to time. Relevant other members of the Executive Committee are also invited to attend meetings, as required.

Our people

A spirit of co-operation is encouraged to ensure the highest standards of integrity and professionalism. Fair and open communication is a high priority.

3i has comprehensive global and regional policies to help ensure that employees treat their colleagues and others with courtesy and respect.

Training and development

We encourage the continuous development of our staff, with the objective of maximising both the overall performance of the business and their career potential. We aim to ensure that our working environments are attractive and stimulating places to work.

Compliance training

It is a legal and regulatory requirement that all executives involved in making or managing investment transactions receive anti-money laundering training and periodic refresher training.

Our Compliance team has developed a series of e-based training courses, including financial crime, anti-bribery, confidential information and regulatory refresher/induction training. It is mandatory for all staff to complete and pass these courses.

Health and safety

Promotion of health and safety at work is an essential responsibility of managers and staff at all levels, as is working safely.

At 3i, we ensure staff can go about their everyday business at 3i's offices safely and without risks to their health. We have a good record and our high standards of health and safety apply to all our employees, visitors, clients and contractors.

We have redesigned our workstation training and assessment software, making it more interactive and relevant to employees. All new employees are asked to complete the training and assessment programme.

We ensure we have competent health and safety advice, and regularly monitor how well we are performing.

For further details of our Health and Safety policy, please visit the CR section of our website at www.3i.com/corporate-responsibility.

Environmental, Social and Governance standards

Risk management

3i's risk governance framework provides a structured process to oversee the identification, assessment and approach to mitigation in respect of those risks which could materially impact the Group's financial performance and/or the achievement of the Group's strategic objectives. This includes risks with an environmental, social and/or governance aspect.

Our principal risks and risk management process are explained on pages 50 to 55 of this Report. Details can also be found in the Pillar 3 disclosures on our website www.3i.com. The most significant corporate responsibility related risks arising from our investment activity relate to environmental, ethical, governance and social issues.

We believe that companies with high environmental, social and governance standards (ESG) are typically better run, have fewer business risks and ultimately deliver better value.

Responsible investing

We are signatories to the UN Principles for Responsible Investing ("PRI") and have embedded RI policies and procedures in our investment and in our portfolio company review processes. The Board, through both its Brand and Values Committee and its Audit and Compliance Committee, receives regular updates on RI policy and procedure, and compliance with it, as well as broader reputational risks arising from our investment activities.

The environment

We endeavour to minimise our impact, wherever possible, and have established procedures to reduce our environmental footprint. In London, which is where the majority of our employees are based, the carbon intensity per employee has reduced by 57% compared with the previous year. Our procedures include:

- powering off lights, computers and other equipment during evenings and weekends,
- recycling office waste, and
- rationalising business travel through a set of clear guidelines. Our travel policy clearly states that people should only travel when the use of alternate conferencing methods does not meet business needs.

In the year to 31 March 2013 our reported emissions were 2000.29 tCO₂e. 3i reduced total carbon emissions by 951.87 tCO₂e from the year 1 April 2011 to 31 March 2012, a reduction of 32%.

This significant reduction in emissions can be attributed principally to the overall reduction in staff numbers during the year, a reduction in business travel, closure of offices and rationalisation of services in the Palace Street office. For example, the Palace Street office has achieved significant carbon reductions by lowering building emissions by 58% (549.03 tCO₂e), mainly due to the removal of gas sources from the site in May 2012. For a breakdown of emissions by source for the year to 31 March 2013, please visit the CR section of our website at www.3i.com.

3i's employees attach importance to working for a company which acts responsibly on environmental matters. Since the beginning of 2013, our Palace Street office has taken part in a sustainability project in conjunction with our landlords, Land Securities, and Planet First, an organisation which supports businesses in improving their sustainability performance. The programme has a different focus each month, covering the environmental impacts of how we source our food, consume water and energy in our buildings and use transport.

Transparency

We take an open and straightforward approach to doing business. Our Annual and Half-yearly reports and our website www.3i.com provide significant disclosure on 3i and on our underlying investments.

Prompt payment code

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

Corporate responsibility

Community

We focus our charitable activities on the disadvantaged, on young people and on education. Charities are supported on the basis of their effectiveness and impact.

Our charitable giving for the year to 31 March 2013 totalled £198,000. We match employees' fundraising and in the UK we promote the Give As You Earn scheme, administered by the Charities Aid Foundation.

Logo removed

The Passage which is based very near to our London office, has a high impact on the local community. 3i funds The Passage's education, training and employment department, which provides homeless and insecurely housed people with support to find a way back into employment and explore training and educational options.

Logo removed

Enterprise Education Trust was founded by 3i 35 years ago and we have supported the charity as it has grown and developed. The Trust focuses on improving the financial literacy of 16 to 19 years olds, raising their aspirations and attainment levels, with a particular focus on business, preparing them for further and higher education, training and employment, and promoting links between schools and businesses.

Logo removed

Community Links is based in Newham, one of the most deprived boroughs in London. Community Links provides "early action" work, which includes running youth clubs and safe play areas, through to providing advice on debt, welfare benefits, form filling etc. It also carries out specialist intervention work when people are experiencing severe problems such as exclusion from school and prolonged periods of unemployment.

Logo removed

Historic Royal Palaces is an independent charity that looks after the Tower of London, Hampton Court Palace, the Banqueting House, Kensington Palace and Kew Palace. 3i helps fund the Outreach and Community Involvement team in Kensington Palace, which works with the local community to engage them in activities in and around the Palace. Despite Kensington & Chelsea being one of the wealthiest boroughs in the UK, it also contains pockets of substantial deprivation. The team engages with the local community in a number of ways, including illustrated talks, storytelling and practical workshops and works with a variety of groups, including elderly people, young people not in education, employment or training, children from disadvantaged backgrounds and the disabled. It also provides the use of community rooms within the palace for local groups to develop their own activities.

Bridges Ventures

Logo removed

3i is proud to be a founding investor in Bridges Ventures, a privately owned UK venture capital company with a social mission.

Bridges was founded in 2002 and has since made equity investments totalling over £77 million in 35 businesses employing 1,693 people, almost 240 of whom came out of unemployment.

In December 2011, 3i invested £5 million into Bridges Ventures Fund III, bringing 3i's total commitment to over £7 million.

Give As You Earn

In the UK, we promote the Give As You Earn scheme, administered by the Charities Aid Foundation.

Subject to an individual cap (currently £400 per month) and a monthly cap of £10,000 in aggregate, 3i currently matches amounts donated by UK staff under the Give As You Earn scheme.

Fundraising events

3i has a policy of matching the amount raised by UK staff through sponsorship by family and friends of their fundraising efforts for UK registered charities.

External benchmarking

3i has been a member of the Dow Jones Sustainability World Index (DJSI) since 2002 and has been reporting to the Carbon Disclosure Project (an independent not-for-profit organisation working to drive greenhouse gas emissions reduction and sustainable water use by business and cities) for the last seven years.

Governance

“The Board has been very focused on strategy and delivering clear and measurable improvement in shareholder returns.”



Sir Adrian Montague
Chairman

This section of the report describes how 3i is governed and managed. 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 and Executive Committee members. It also explains the division of responsibilities between the Directors, including between the Chairman and Chief Executive. This section also includes the Directors' remuneration report.

Introduction

Good corporate governance is fundamental to 3i and its activities. Governance and oversight of the Group's business model and strategy are critical to the delivery of value to the Group's stakeholders. This is more important than ever given the current challenging and uncertain economic environment that the Group faces and the changing regulatory landscape across our sector.

The Board is responsible to shareholders for the overall management and oversight of the Group and for its long-term success. In particular, the Board is responsible for agreeing the Group's strategy, monitoring financial performance, setting and monitoring the Group's risk appetite and maintaining an effective system of internal controls.

It is the Board's responsibility to ensure that the Group has a clear strategy and that the necessary people, resources and structures are in place to support the delivery of this strategy.

Appointment of the Chief Executive

During the last year, a key role of the Board was the appointment of a new Chief Executive of 3i. Following the announcement in March 2012 of Michael Queen's intention to resign as Chief Executive, the Board consulted with shareholders regarding the process to select Michael's successor. The Nominations Committee and the Board followed a rigorous process that considered a strong field of both external and internal candidates. This culminated in the appointment on 17 May 2012 of Simon Borrows as 3i's new Chief Executive with a strategic mandate from the Board to pursue a clear and concrete set of measures to maximise shareholder value over the longer term.

The key areas of immediate focus for the strategic review of the business were as follows:

- determining the best shape and investment strategy for the business going forward
- improving the consistency and discipline of the Group's asset management approach and ensuring that the Group's investment capabilities were of a high quality, and
- ensuring that the operating cost base and liquidity costs were consistent with the Group's investment and asset management strategy and with the prudent maintenance of the balance sheet.

On 29 June 2012, following the strategic review, the future strategy for 3i was announced. The Board continues to meet regularly to review, discuss and debate the Group's strategic objectives and its progress towards achieving these. As part of this, in December 2012, the Board, together with members of the Executive Committee, met for a full day to review and discuss progress against the Group's strategy.

Board of Directors and Executive Committee

Board of Directors

			
Sir Adrian Montague	Julia Wilson	Alistair Cox	Willem Mesdag
			
Simon Borrowes	Jonathan Asquith	Richard Meddings	Martine Verluyten

Chairman

Sir Adrian Montague

Chairman

Chairman since 2010. Chairman of Anglian Water Group. A non-executive director of Aviva plc, Skanska AB and CellMark AB.

Previous experience

Chairman of Michael Page International plc, London First Friends Provident PLC, British Energy Group PLC, Cross London Rail Links Ltd (Crossrail) and Deputy Chairman of Network Rail and the UK Green Investment Bank plc.

Executive Directors

Simon Borrowes

Chief Executive

Chief Executive since May 2012 and an Executive Director since he joined 3i in October 2011. Chairman of the Group Risk Committee, the Executive Committee and the Group's Investment Committee. Also a non-executive director at Inchcape plc and The British Land Company Public Limited Company.

Previous experience

Formerly Chairman of Greenhill & Co International LLP having previously been Co-Chief Executive Officer of Greenhill & Co Inc. Before founding the European operations of Greenhill & Co in 1998 he was the Managing Director of Baring Brothers International Limited.

Julia Wilson

Group Finance Director

Group Finance Director and member of the Executive Committee since 2008. A member of the Group's Investment Committee since July 2012. Joined 3i in 2006 as Deputy Finance Director with responsibility for the Group's finance, taxation and treasury functions. Also a non-executive director at Legal & General Group Plc.

Previous experience

Group Director of Corporate Finance at Cable & Wireless plc.

Non-executive Directors

Jonathan Asquith

Non-executive Director since March 2011. Chairman of AXA Investment Managers and Dexon Capital plc. A non-executive director of Citibank International plc and Citigroup Global Markets Limited.

Previous experience

Non-executive director of Ashmore Group plc 2008–2012. Executive director of Schroders plc from 2002 until 2008, during which time he was Chief Financial Officer and later Vice-Chairman. Previously spent 18 years in investment banking with Morgan Grenfell and Deutsche Bank.

Alistair Cox

Non-executive Director since 2009. Chief Executive of Hays plc.

Previous experience

Chief Executive of Xansa plc from 2002 to 2007 and Regional President of Asia and Group Strategy Director at Lafarge (formerly Blue Circle Industries) between 1994 and 2002.

Richard Meddings

Non-executive Director since 2008 and Senior Independent Director since October 2010. Group Finance Director of Standard Chartered PLC since 2006, having joined the Board of Standard Chartered PLC as a Group Executive Director in 2002. A member of the Governing Council of the International Chamber of Commerce, United Kingdom.

Previous experience

Chief Operating Officer, Barclays Private Clients, Group Financial Controller at Barclays PLC and Group Finance Director of Woolwich PLC.

Willem Mesdag

Non-executive Director since 2007. Managing Partner of Red Mountain Capital Partners LLC.

Previous experience

A Partner and Managing Director of Goldman Sachs & Co.

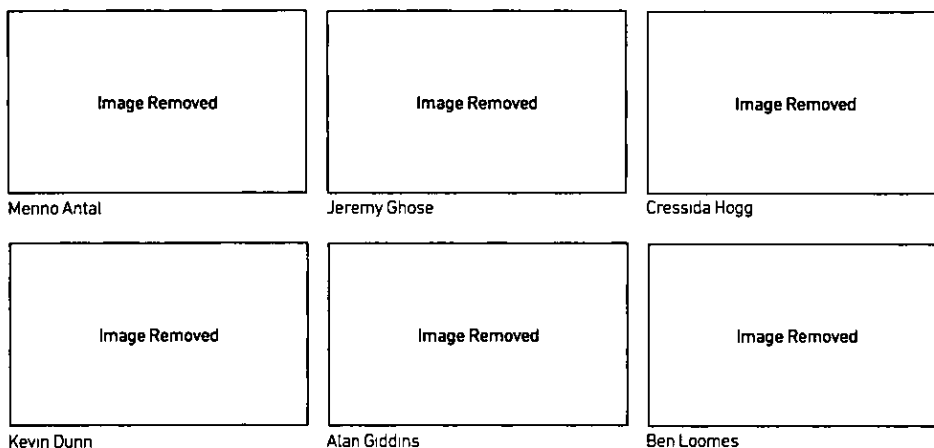
Martine Verluyten

Non-executive Director since January 2012. A non-executive director of Thomas Cook Group plc, STMicroelectronics NV and Groupe Bruxelles Lambert.

Previous experience

Chief Financial Officer of Umicore, a Brussels-based listed materials technology group, from 2006 to December 2011. Before joining Umicore was Group Controller and then Chief Financial Officer of Mobistar.

Executive Committee



Executive Committee

Menno Antal

Managing Partner, Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010

Previous experience

Joined 3i in 2000 and Managing Director, Benelux since 2003. Prior to joining 3i, held a broad range of international managerial positions within Heineken.

Kevin Dunn

General Counsel, Company Secretary and Head of Human Resources

Responsible for 3i's legal, compliance, internal audit, human resources and company secretarial functions. A member of the Executive Committee since joining 3i in 2007.

Previous experience

Prior to joining 3i, was a Senior Managing Director running GE's European Leveraged Finance business after serving as European General Counsel for GE. Prior to GE, was a partner at the law firms Travers Smith and Latham & Watkins.

Jeremy Ghose

Managing Partner and CEO of 3i Debt Management

A member of the Executive Committee since joining 3i in February 2011 on 3i's acquisition of Mizuho Investment Management (UK) Limited from Mizuho Corporate Bank.

Previous experience

Prior to joining 3i, was with Mizuho Corporate Bank (formerly The Fuji Bank) since 1988 and on its executive board since 2005. Founder of Mizuho's Leveraged Finance business in 1988 and of the third-party independent debt fund management business in 2005.

Alan Giddins

Managing Partner, Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010.

Previous experience

Joined 3i in 2005. Prior to joining 3i, spent 13 years in investment banking, latterly as a Managing Director at Société Générale.

Cressida Hogg

Managing Partner, Infrastructure

A member of the Executive Committee and the Group's Investment Committee since 2010. Responsible for the Infrastructure business line and for leading the advisory relationship with the independent Board of 3i Infrastructure plc.

Previous experience

Joined 3i in 1995. Co-founded 3i's Infrastructure business in 2005 and became Managing Partner, Infrastructure in 2009.

Ben Loomes

Group Strategy Director

A member of the Executive Committee and the Group's Investment Committee since July 2012.

Previous experience

Joined 3i in April 2012. Prior to joining 3i, was an Executive Director within Morgan Stanley's UK investment banking business and before that was a Principal of Greenhill & Co. International, focusing on European mergers and acquisitions, financing, advisory and restructuring. Began career at Goldman Sachs International within its European investment banking division.

Board and Committees

Board and Committees structure

It is the Board's responsibility to ensure that there is an effective organisational and reporting structure in place such that there are clear reporting lines within the Group and well defined roles and responsibilities. This is to ensure that the right decisions are being made with involvement from the right people.

The Board is assisted by various standing Committees of the Board which report regularly to the Board. In undertaking its duties, the Board delegates certain authorities and decisions to its Committees. The Board committee structure, including a summary of the roles and composition of the Committees, is outlined in the diagram on page 63. The membership of these Committees is regularly reviewed by the Board. When considering Board Committee membership and chairmanship, the Board aims to ensure that undue reliance is not placed on particular Directors.

These Board Committees all have clearly defined terms of reference. The terms of reference of the Audit and Compliance Committee, the Brand and Values Committee, the Nominations Committee, the Remuneration Committee and the Valuations Committee are available at www.3i.com.

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional Committees. These are also outlined in the diagram on page 63.

As part of the new strategy announced in June last year, the Group's organisational structure has been simplified and processes have been streamlined. A number of committee structures were rationalised in order to reduce organisational complexity and to enable better and more efficient decision-making. A new leadership team, the Executive Committee, was established by the Chief Executive as the principal day-to-day decision-making body for the management of the Group.

A new Group Investment Committee was also put in place, responsible for the acquisition, management and disposal of investments.

How the Board operates

The Chairman is responsible for 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 who have a range of strong and complementary skills.

The table set out on page 69 provides details of attendance at full meetings of the Board and its Committees during the last year. In addition to those full meetings, a number of ad hoc meetings were held to deal with specific items as they arose.

Prior to each full meeting of the Board and its Committees, and as required for ad hoc meetings, relevant reports and papers, including financial performance data and detailed updates on the progress and implementation of the strategic plan where appropriate, are circulated to Directors.

The Board has the opportunity to discuss these reports and updates and to challenge directly the Executive Directors and other senior management who attend all or part of the Board meetings.

The key responsibilities and areas of focus for the Board are:

- **Strategy** – contribute to the development of, and agree, the Group's strategy. This includes through review and discussion of reports and updates at Board meetings as well as through the annual strategy review meeting which is attended by the Board and members of the Executive Committee.
- **Group financial and operational performance** – review and monitor the performance of the Group, including through regular reporting and discussions with the Executive Committee and other senior management.
- **Senior management** – ensure that the Executive Committee has the skills and resources to deliver the strategy and that appropriate succession and contingency planning is in place.
- **Evaluation and composition** – review the performance of the Board and its Committees to ensure that they are effective. Ensure that the Board and its Committees comprise competent and capable individuals with a range of skills and experience who bring independent views to the decisions being made.
- **Internal controls** – maintain an appropriate internal control framework.
- **Risk** – ensure that there are effective risk management policies and processes in place and an appropriate governance structure.

To help the Board discharge its duties, it has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. This is described on page 69. Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day management and operation of the business, the appointment and remuneration of all staff below the Executive Committee and the formulation and implementation of risk management policies and processes.

Overview of Committees of the Board and Chief Executive

3i Group plc Board

Board level Committees

Audit and Compliance Committee	Remuneration Committee	Brand and Values Committee	Nominations Committee	Valuations Committee
Financial reporting risk and internal controls	Director and senior management remuneration and Group remuneration structure	Corporate values, ethical approach brand and reputation	Board appointments, and size balance and composition of the Board	Valuation policy and investment valuations
Richard Meddings (Chairman) Jonathan Asquith Alistair Cox Martine Verluyten	Jonathan Asquith (Chairman) Alistair Cox Willem Mesdag	Sir Adrian Montague (Chairman) Simon Borrows Kevin Dunn All non-executive Directors are invited to attend and participate in the Committee's meetings	Sir Adrian Montague (Chairman) Jonathan Asquith Simon Borrows Alistair Cox Richard Meddings Willem Mesdag Martine Verluyten	Willem Mesdag (Chairman) Sir Adrian Montague Simon Borrows Julia Wilson

Chief Executive

Chief Executive's Committees

Executive Committee	Investment Committee	Group Risk Committee	Conflicts Committee
Principal decision-making body in respect of managing the business	Acquisition, management and disposal of investments	Oversees the Group's risk management framework	Independent review of conflict issues
Simon Borrows (Chairman) Julia Wilson Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Cressida Hogg Ben Loomes	Simon Borrows (Chairman) Julia Wilson Menno Antal Alan Giddins Cressida Hogg Ben Loomes Ian Lobley (Senior Private Equity Partner)	Simon Borrows (Chairman) Julia Wilson Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Cressida Hogg Ben Loomes Director, Group Compliance Director Internal Audit	Kevin Dunn (Chairman) Julia Wilson Ben Loomes

Division of responsibilities

The table below summarises the division of responsibilities between the Directors, including the Chairman and Chief Executive, which has been approved by the Board

Role of the Chairman	Role of the Chief Executive	Role of non-executive Directors
■ Leads the Board in setting its agenda, agreeing strategy, monitoring financial and operational performance, and establishing the Group's risk appetite ■ Responsible for organising the business of the Board, ensuring its effectiveness and maintaining an effective system of internal controls ■ Ensures that non-executive Directors receive relevant and accurate information to facilitate an open and effective discussion. This includes ensuring that the non-executive Directors receive regular reports on shareholders' views on the Group ■ Responsible for the composition of the Board and facilitates the effective contribution of non-executive Directors and constructive relations between Executive and non-executive Directors	■ Direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group ■ Leads the Executive Committee to develop and implement the Group's strategy and manage risk and the internal control framework ■ Reports to the Board on financial and operational performance and progress in delivering the strategic objectives ■ Regularly engages with shareholders and other key stakeholders on the Group's activities and progress	■ Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance ■ Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible ■ Determine appropriate levels of remuneration for Executive Directors and have a prime role in appointing Directors and in succession planning ■ Constructively challenge and help develop proposals on strategy, this occurs at meetings of the Board, and in particular at the annual review meeting to discuss ongoing strategy the most recent of which took place in December 2012

Effectiveness

During the year the Board conducted its annual evaluation of its own performance and that of its Committees and individual Directors. The process was led by the Chairman and externally facilitated by Dr Tracy Long of Boardroom Review Limited. The results of the evaluation process were reported to, and discussed by the Board.

The Board performance evaluation considered the overall functioning of the Board including how discussion on key topics could most effectively be encouraged and managed, the culture of the organisation, and how non-executive Directors could both further increase their knowledge of the Group's investments and engage further with the Group's investment business without impinging on areas delegated to management. Recent enhancements to regular Board reports were agreed to have improved the Board's insight into day-to-day performance of portfolio companies, and it was decided all non-executive Directors would attend each year a number of management's regular internal in-depth review discussions on individual portfolio companies. Further opportunities were identified for non-executive Directors to engage with the teams which manage the Group's investments.

The Board evaluation process also included consideration of the size, balance and composition of the Board, including its diversity, including as to gender.

In his role as Senior Independent Director, Mr R H Meddings led a review by the Directors of the performance of the Chairman and subsequently reported back to the Board.

Statutory and corporate governance information

Principal activity of the Group

The Group is an international investor focused on private equity, infrastructure and debt management, investing in Europe, Asia and the Americas

Group investment policy

3i's investment policy, which as a closed-ended investment fund it is required to publish, is as follows

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity, infrastructure and debt management investment returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. In addition, although 3i does not set maximum exposure limits for asset allocations, no more than 15% by value of 3i's portfolio can be held in a single investment.
- Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

During the year, the Company has continued its approach of conservative balance sheet management. The Board recognises the current need to manage liquidity and gross and net debt levels on a conservative basis such that the Company should be well-placed to deal with external events, take advantage of opportunities and manage its investment and divestment activities in a flexible manner. The Board has decided that net debt should not currently exceed £1 billion and may at times be significantly below this limit.

As a consequence, gearing, which is a function of both net debt and asset values, is expected to be in the range of 0%–30% for the immediate future. It should be noted that (subject always to the formal gearing limit in the Company's investment policy statement set out above) the actual gearing level at any point in time will fluctuate since it is a function of, among other things, asset valuations and the timing of investment and realisation cash flows. The Board anticipates that the Company may be in a net cash position during certain periods (for example during periods of high valuations where realisations might be expected to exceed investment) but may have net debt in other periods (for example where valuations are relatively low or after periods of low return flows).

Tax and investment company status

The Company is an investment company as defined by section 833 of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Company directs its affairs to enable it to continue to remain so approved.

Regulation

3i Investments plc, 3i Debt Management Investments Limited, 3i Europe plc and 3i Nordic plc, subsidiaries of the Company, are authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries, businesses outside the United Kingdom are regulated locally by relevant authorities.

Management arrangements

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. Contracts for these investment management and other services, for which regulatory authorisation is required, provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

3i plc provides the Group with certain corporate and administrative services, for which no regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services together with a performance fee based on realised profits on the sale of assets.

Results and dividends

Total comprehensive income for the year was £373 million (2012 £(656) million). An interim dividend of 2.7p per ordinary share in respect of the year to 31 March 2013 was paid on 9 January 2013. The Directors recommend a final dividend of 5.4p per ordinary share be paid in respect of the year to 31 March 2013 to shareholders on the Register at the close of business on 21 June 2013.

The trustee of The 3i Group Employee Trust ('the Employee Trust') has waived (subject to certain minor exceptions) dividends declared by the Company after 26 May 1994 on shares held by the Employee Trust.

Business review

The Group's development during the year to 31 March 2013, its position at that date and the Group's likely future development are detailed in the Chairman's statement, the Chief Executive's review and the Business review.

Statutory and corporate governance information

Share capital

The issued share capital of the Company as at 31 March 2013 comprised 971,405,127 ordinary shares of 73 1/2p each and 4,635,018 B shares (cumulative preference shares of 1p each), representing 99.99% and 0.01% respectively of the Company's issued share capital by nominal value

Ordinary shares

The issued ordinary share capital of the Company as at 1 April 2012 was 971,069,281 ordinary shares and increased over the year to 31 March 2013 by 335,846 ordinary shares on the issue of shares to the trustee of the 3i Group Share Incentive Plan. At the Annual General Meeting (AGM) on 29 June 2012, the Directors were authorised to repurchase up to 97,000,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 16 May 2012) until the Company's AGM in 2013 or 28 September 2013, if earlier. This authority was not exercised in the year.

B shares

The issued B share capital of the Company as at 1 April 2012 was 4,635,018 B shares. No B shares were issued in the year to 31 March 2013. At the AGM on 29 June 2012, the Directors were authorised to repurchase up to 4,635,018 B shares in the Company until the Company's AGM in 2013 or 28 September 2013, if earlier. This authority was not exercised in the year.

Directors' interests

In accordance with FCA Listing Rule 9.8.6(R)(1), interests of Directors and their connected persons 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 2013 are shown below:

	Ordinary shares	B shares
Sir Adrian Montague	70,772	0
J P Asquith	5,000	0
S A Borrows	8,238,245	0
A R Cox	17,400	0
R H Meddings	20,960	0
W Mesdag	339,053	0
M G Verluyten	2,500	0
J S Wilson	65,949	1,038

The share interests shown for Mrs J S Wilson include shares held in the 3i Group Share Incentive Plan. The share interests shown exclude share option and long-term share awards detailed in the Directors' remuneration report. From 1 April 2013 to 10 May 2013 Mrs J S Wilson became interested in an additional 111 ordinary shares and there were no other changes to Directors' share interests.

Debentures

As detailed in note 21 to the Accounts, as at 31 March 2013 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

Directors' conflicts of interests

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

Directors' indemnities

As permitted by the Company's Articles of Association, the Company has maintained Qualifying Third-Party Indemnity Provisions (as defined under relevant legislation) for the benefit of the Company's Directors throughout the year.

Employment

The policy of the Group is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

3i treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Arrangements are made as necessary to ensure support to job applicants who happen to be disabled and who respond to requests to inform the Company of any requirements. Should an employee become disabled during their employment, efforts would be made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within 3i. Financial support is also provided by 3i to support disabled employees who are unable to work, as appropriate to local market conditions.

3i's principal means of keeping in touch with the views of its employees is through employee appraisals, informal consultations, team briefings, and staff conferences. Managers throughout 3i have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

3i is an equal opportunities employer and has clear grievance and disciplinary procedures in place. 3i also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all staff and their families in the UK.

3i's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff whilst ensuring that the relevant costs remain at an appropriate level.

Remuneration policy is reviewed by the 3i Group plc Remuneration Committee, comprising 3i Group plc non-executive Directors.

3i's remuneration policy is influenced by 3i's financial and other performance conditions and market practices in the countries in which it operates. All employees receive a base salary and are also eligible to be considered for a performance-related annual variable incentive award. For those members of staff receiving higher levels of annual variable incentive awards, a proportion of such awards are delivered in 3i shares, vesting over a number of years.

Where appropriate, employees are eligible to participate in 3i share schemes to encourage employees' involvement in 3i's performance. Investment executives in the Private Equity business line may also participate in carried interest schemes, which allow executives to share directly in any future profits on investments. Similarly, investment executives in the Infrastructure and Debt Management business lines may participate in asset-linked and/or fee-linked incentive arrangements. Employees participate in local state or company pension schemes as appropriate to local market conditions.

Charitable and political donations

Charitable donations made by the Group in the year to 31 March 2013 amounted to £197,500. Of this, approximately 30% was to match staff charitable giving and fundraising activities and approximately 70% was devoted to charities supporting the young, the disadvantaged and education.

In line with Group policy, during the year to 31 March 2013 no donations were made to political parties or organisations, or independent election candidates, and no political expenditure was incurred.

Policy for paying creditors

The Group became a signatory to the Prompt Payment Code in the year and its policy is to pay suppliers in accordance with the terms and conditions of the relevant markets in which it operates. Expenses are paid on a timely basis in the ordinary course of business. The Company had no trade creditors outstanding at the year end. The Group had trade creditors outstanding at the year end representing on average 18.9 days' purchases.

Significant agreements

As at 31 March 2013 the Company was party to the following agreements that are subject to a renegotiation period on a change of control of the Company following a takeover bid:

- (a) £450 million multi-currency Revolving Credit Facility Agreement dated 30 June 2011 between the Company, 3i Holdings plc, Lloyds TSB Bank plc and 12 other banks. Under this agreement the Company would be required to notify Lloyds TSB Bank plc, as agent for the banks, within five days of any change of control. This would open a 20-day negotiation period to determine whether the Majority Lenders (as defined in the agreement) would be willing to continue to make available the facility and, if so, on what terms. Failing agreement and if so required by the Majority Lenders, amounts outstanding would be repayable and the facility cancelled; and
- (b) £50 million multi-currency Revolving Credit Facility Agreement dated 29 September 2011, between the Company, 3i Holdings plc and Nordea Bank Finland PLC London Branch. Under this agreement the Company would be required to notify the lender within five days of any change of control. This would open a 20-day negotiation period to determine whether the lender would be willing to continue the facility and, if so, on what terms. Failing agreement, and if so required by the lender, amounts outstanding would be repayable and the facility cancelled.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) which have been adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. In preparing the Group financial statements the Directors:

- (a) select suitable accounting policies in accordance with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- (d) state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- (e) make judgements and estimates that are reasonable.

The Directors have a responsibility for ensuring that proper accounting records are kept which are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. 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 Company and the undertakings included in the consolidation taken as a whole; and
- (b) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors of the Company and their functions are listed in the Board of Directors and Executive Committee section.

Statutory and corporate governance information

Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2013

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Business review section. The financial position of the Group, its capital structure, gearing and liquidity positions are described in the Financial review section. The Group's policies on risk management, including treasury and funding risks, are contained in the Risk section. Further details are contained in the financial statements and notes including, in particular, details on financial risk management and derivative financial instruments.

The Directors believe that the Group is well placed to manage its business risks successfully despite the continuing uncertain economic outlook. The Directors have considered the uncertainties inherent in current and expected future market conditions and their possible impact upon the financial performance of the Group. After consideration, the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future and therefore continue to adopt the going concern basis in preparing the Annual Report and accounts.

Audit information

Pursuant to section 418(2) of the Companies Act 2006, each of the Directors confirms that

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Appointment of auditors

In accordance with section 489 of the Companies Act 2006, a resolution proposing the reappointment of Ernst & Young LLP as the Company's auditors will be put to members at the forthcoming AGM.

Corporate governance statement

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

Corporate governance

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the 'Code') published by the Financial Reporting Council in May 2010.

The Company's approach to corporate governance

The Company seeks to comply with established best practice in the field of corporate governance. The Board has adopted core values and global policies which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and others who engage with the Company.

The Board's responsibilities and processes

The Board's key responsibilities are described on page 62. It is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise deal with or dispose of the Company's shares as the Board may decide. The Companies Act 2006 authorises the Company to make market purchases of its own shares if the purchase has first been authorised by a resolution of the Company.

At the AGM in June 2012, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits and also renewed the Board's authority to repurchase B shares on behalf of the Company subject to certain limits. Details of the authorities which the Board will be seeking at the 2013 AGM are set out in the 2013 Notice of AGM.

The Articles of Association also specifically empower the Board to exercise the Company's powers to borrow money and to mortgage or charge the Company's assets and any uncalled capital and to issue debentures and other securities.

Matters reserved for the Board

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

- Approval of the Group's overall strategy, strategic plan and annual operating budget
- Approval of the Company's half-yearly and annual financial statements and changes in the Group's accounting policies or practices,
- Changes relating to the capital structure of the Company or its regulated status
- Major capital projects,
- Major changes in the nature of business operations,
- Investments and divestments in the ordinary course of business above certain limits set by the Board from time to time
- Adequacy of internal control systems
- Appointments to the Board and the Executive Committee
- Principal terms and conditions of employment of members of the Executive Committee, and
- Changes in employee share schemes and other long-term incentive schemes

Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day operation of the business, the appointment and remuneration of all executives below the Executive Committee and the formulation and execution of risk management policies and procedures.

A succession and contingency plan for executive leadership is prepared by management and reviewed periodically by the Board. The purpose of this plan is to identify suitable candidates for succession to key senior management positions, agree their training and development needs, and ensure the necessary human resources are in place for the Company to meet its objectives.

Meetings of the Board

The principal matters considered by the Board during the year (in addition to matters formally reserved to the Board) included:

- The appointment of the new Chief Executive
- The strategic review and cost reduction plans
- The revised strategic model and related KPIs
- Resolutions proposed by shareholders for the 2012 AGM
- The budget, financial resources and FX hedging strategy,
- Regular reports from the Chief Executive,
- Regular reports from the Board's committees
- The recommendations of the Valuations Committee on valuations of investments, and
- The business model and its application by different business lines

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

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. Further details are given on page 64.

Attendance at Board and Committee Meetings

The table below shows the number of full meetings of the Board and its committees attended by Directors during the year to 31 March 2013 and, in brackets, the number of such meetings they were eligible to attend. In addition to these meetings a number of ad hoc meetings were held to deal with specific items as they arose.

	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Valuations Committee	Brand and Values Committee
Total meetings held	12	6	3	8	4	3
Number attended						
Sir Adrian Montague	12 (12)	–	3 (3)	–	4 (4)	3 (3)
S A Borrows ¹	12 (12)	–	1 (1)	–	3 (3)	3 (3)
J S Wilson	12 (12)	–	–	–	4 (4)	–
J P Asquith	12 (12)	6 (6)	3 (3)	8 (8)	–	3 (3) ³
A R Cox	12 (12)	6 (6)	3 (3)	8 (8)	–	3 (3) ³
R H Meddings	12 (12)	6 (6)	3 (3)	–	–	3 (3) ³
W Mesdag	10 (12)	–	2 (3)	8 (8)	4 (4)	3 (3) ³
M G Verluyten	12 (12)	6 (6)	3 (3)	–	–	3 (3) ³
M J Queen ²	2 (3)	–	–	–	1 (1)	–

¹ Appointed to Valuations Committee and Nominations Committee upon becoming Chief Executive on 17 May 2012.

² Resigned on 16 May 2012.

³ Although not members of the Brand and Values Committee each of these non-executive Directors was invited to attend and participate in the Committee's meetings.

Statutory and corporate governance information

Appointment and re-election of Directors

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive Directors are appointed for an initial period of three years. Before the third and sixth anniversaries of a non-executive Director's first appointment, the Director discusses with the Board whether it is appropriate for a further three-year term to be served.

Under the Company's Articles of Association, the minimum number of Directors is two and the maximum is 20, unless otherwise determined by the Company by ordinary resolution. Directors are appointed by ordinary resolution of the Company's shareholders or by the Board.

Directors retire by rotation at an AGM if they were appointed by the Board since the preceding AGM, they held office during the two preceding AGMs but did not retire at either of them, not being Chairman of the Board, they held non-executive office for a continuous period of nine years or more at the date of that AGM, or they choose to retire from office. Shareholders have the power to remove any Director by special resolution.

Subject to the Company's Articles of Association, retiring Directors are eligible for reappointment. The office of Director shall be vacated if the Director resigns, becomes bankrupt or is prohibited by law from being a Director or where the Board so resolves following the Director suffering from mental ill-health or being absent from Board meetings for 12 months without the Board's permission.

In accordance with the Code, all Directors choose to submit to reappointment every year. Accordingly, at the AGM to be held on 18 July 2013, all the Directors will retire from office. All the Directors are eligible for and seek reappointment. The Board's recommendation for the reappointment of Directors is set out in the 2013 Notice of AGM.

The roles of the Chairman, Chief Executive and Senior Independent Director

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined and has been approved by the Board. Their roles are described on page 64.

Mr R H Meddings has served as Senior Independent Director since October 2010, to whom, in accordance with the Code, concerns can be conveyed.

Directors

The Board currently comprises the Chairman, five independent non-executive Directors and two Executive Directors. Biographical details for each of the Directors are set out in the Board of Directors and Executive Committee section. Sir Adrian Montague served as Chairman and Mr J P Asquith, Mr S A Borrows, Mr A R Cox, Mr R H Meddings, Mr W Mesdag, Ms M G Verluyten and Mrs J S Wilson served as Directors throughout the year under review. Mr M J Queen served as a Director until 16 May 2012.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgement to bear on issues of strategy, performance, resources and standards of conduct, and to help the Board provide the Company with effective leadership. They are also expected to ensure high standards of financial probity on the part of the Company and to monitor the effectiveness of the Executive Directors. Directors are expected to make available sufficient time to meet the requirements of the appointment. The average time commitment for a non-executive Director is expected to be around 15 days a year, together with additional time for serving on the Board's committees.

The Board's discussions, and its approval of the Group's strategic plan and annual budget, provide the non-executive Directors with the opportunity to contribute to and validate management's plans and assist in the development of strategy. The non-executive Directors receive regular management accounts, reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives.

Further details of the role and responsibilities of non-executive Directors are set out on page 64.

Directors' independence

All the non-executive Directors (other than the Chairman, who was independent on appointment) were considered by the Board to be independent for the purposes of the Code in the year to 31 March 2013

The Board reviews the independence of non-executive Directors at least annually having regard to the potential relevance and materiality of a Director's interests and relationships rather than applying rigid criteria in a mechanistic manner. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' employment contracts

Details of Executive Directors' employment contracts are set out in the Directors' remuneration report.

Training and development

The Company has developed a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to update their skills and maintain their familiarity with the Company and its business continually. Presentations on different aspects of the Company's business are made regularly to the Board. On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment or support teams.

The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

The Board's Committees

As described on page 63, the Board is assisted by various standing committees of the Board which report regularly to the Board. The Board's Committees are described below and on the next page.

Audit and Compliance Committee

The Audit and Compliance Committee comprises Mr R H Meddings (Chairman), Mr J P Asquith, Mr A R Cox and Ms M G Verluyten, all of whom are independent non-executive Directors and served throughout the year. The Board is satisfied that the Committee Chairman, Mr R H Meddings, has recent and relevant financial experience.

During the year, the Committee

- Reviewed the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements
- Reviewed and recommended to the Board the accounting disclosures comprised in the half-yearly and annual financial statements of the Company and reviewed the scope of the annual external audit plan and the external audit findings.
- Received the reports of the Valuations Committee on the valuation of the Group's investment assets and recommended valuations to the Board
- Reviewed portfolio management processes and tax compliance arrangements
- Received regular reports and updates on the audit plan from the Group's internal audit function, monitored its activities and reviewed its effectiveness
- Received regular reports from Group Risk Committee and the Group's regulatory compliance function
- Oversaw the Company's relations with its external auditors including assessing auditor performance, independence and objectivity, recommending the auditors' reappointment and approving the auditors' fees
- Met separately with the Finance Director, the Director Internal Audit, the Director Group Compliance and the external auditors in the absence of management and
- Received regular reports on litigation involving the Group, on the Group's regulatory capital position, on developments in regulation and accounting standards, on bank covenants and third-party liabilities, and on Directors' and Executive Committee members' expenses

Remuneration Committee

The Remuneration Committee comprises Mr J P Asquith (Chairman), Mr A R Cox and Mr W Mesdag, all of whom are independent non-executive Directors and served throughout the year.

The work of the Remuneration Committee is described in the Directors' remuneration report.

Statutory and corporate governance information

Nominations Committee

The Nominations Committee comprises Sir Adrian Montague (Chairman) Mr S A Borrows, Mr J P Asquith, Mr A R Cox Mr R H Meddings Mr W Mesdag and Ms M G Verluysen, all of whom served throughout the year save for Mr S A Borrows who served from his appointment as Chief Executive on 17 May 2012 Mr M J Queen was a member of the Committee until he ceased to be Chief Executive on 16 May 2012, although he did not attend meetings which considered the appointment of his successor

During the year, the Nominations Committee

- Considered candidates for appointment as Chief Executive and recommended to the Board the appointment of Mr Borrows and
- Considered the size balance diversity (including gender) and composition of the Board and put in train arrangements for selecting further candidates for recommendation to the Board for appointment as non-executive Director

The Company has a formal, rigorous and transparent process for the appointment of Directors with the objective of identifying the skills and experience profile required of new Directors and identifying suitable candidates. The procedure includes the appraisal and selection of potential candidates by the Committee, including (in the case of non-executive Directors) whether they have sufficient time to fulfil their roles. Specialist recruitment consultants assist the Committee to identify suitable candidates for appointment. The Committee's recommendations for appointment are put to the full Board for approval.

Further to the publication of the Davies Report on Women on Boards and Code Provision B 2.4 which will take effect for financial years commencing on or after 1 October 2012, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a broad range of approaches, backgrounds, skills and experience represented on the Board and to make appointments on merit and against objective criteria, including diversity. Search agents engaged by the Company are instructed to put forward for all Board positions a diversity of candidates including women candidates.

Valuations Committee

The Valuations Committee comprises Mr W Mesdag (Chairman) Sir Adrian Montague Mr S A Borrows and Mrs J S Wilson, all of whom served throughout the year except Mr Borrows who served from his appointment as Chief Executive on 17 May 2012. Mr M J Queen was a member of the Committee until he ceased to be Chief Executive on 16 May 2012.

During the year, the Valuations Committee considered and made recommendations to the Audit and Compliance Committee and the Board on the quarterly valuations of the Group's investments.

Brand and Values Committee

The Brand and Values Committee comprises Sir Adrian Montague (Chairman) Mr S A Borrows and Mr K J Dunn, all of whom served throughout the year save for Mr S A Borrows who served from 17 May 2012. Mr M J Queen served as a member of the Committee until 16 May 2012. In addition, all of the Company's non-executive Directors are invited to attend meetings of the Committee and participate in its discussions.

During the year the Brand and Values Committee considered and made recommendations on a range of matters pertaining to the Group's reputation and its approach as a responsible investor and a responsible business. The Committee considered reports on Responsible Investment policy, the environmental social and governance risks identified through the Company's portfolio company review process and specific reputational risk incidents arising from investments.

The Company Secretary

All Directors have access to the advice and services of the General Counsel and Company Secretary who is responsible for advising the Board, through the Chairman, on governance matters. The Company's Articles of Association and the schedule of matters reserved to the Board or its duly authorised committees for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Major interests in ordinary shares

Notifications of the following major voting interests in the Company's ordinary share capital (which are notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules and section 793 Companies Act 2006) had been received by the Company as at 31 March 2013 and 10 May 2013 as shown in the table below.

Major interests in ordinary shares

	As at 31 March 2013	% of issued share capital	As at 10 May 2013	% of issued share capital	Nature of holding
BlackRock, Inc	107,675,564	11.08	106,956,376	11.01	Indirect
UBS Global Asset Management	46,794,770	4.82	46,526,752	4.79	
Artemis Investment Management LLP	44,857,331	4.62	45,186,900	4.65	
Sherborne Investors (Guernsey) B Limited	43,179,838	4.44	47,915,366	4.93	
Legal and General Group plc and/or its subsidiaries	29,204,206	3.00	30,591,441	3.15	Direct

Relations with shareholders

The Board recognises the importance of maintaining a purposeful relationship with the Company's shareholders. The Chief Executive and the Finance Director meet with the Company's principal institutional shareholders to discuss relevant issues as they arise. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required.

The Board receives reports from the Company's brokers on shareholder issues and non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

The Company's major shareholders are offered the opportunity to meet newly-appointed non-executive Directors.

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 Chief Executive. The Chairmen of the Remuneration, Audit and Compliance and Nominations Committees are generally available to answer shareholders' questions.

The 2012 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.

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2013 is set out below.

The Company's Articles of Association may be amended by special resolution of the shareholders in general meeting. Holders of ordinary shares and B shares enjoy the rights set out in the Articles of Association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as the Company by ordinary resolution (or failing such resolution) the Board may decide.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. To attend and vote at a general meeting, a shareholder must be entered on the register of members at such time (not being earlier than 48 hours before the meeting) as stated in the notice of general meeting. On a poll, holders of ordinary shares are entitled to one vote for each share held. Holders of ordinary shares are entitled to receive the Company's Annual Report and accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of the B shares or such other shares with preferred rights as may then be in issue.

Holders of B shares are entitled, out of the profits available for distribution in any year and in priority to any payment of dividend or other distribution to holders of ordinary shares, to a cumulative preferential dividend of 3.75% per annum calculated on the amount of 127p per B share (the Return Amount). On a return of capital (other than a solvent intra-group reorganisation), holders of B shares are entitled to receive in priority to any payment to holders of ordinary shares payment of the Return Amount together with any accrued but unpaid dividends but are not entitled to any further right of participation in the profits or assets of the Company.

Holders of B shares are not entitled to notice of or to attend, speak or vote at general meetings save where the B share dividend has remained unpaid for six months or more or where the business of the meeting includes consideration of a resolution for the winding-up of the Company (other than a solvent intra-group reorganisation) in which case holders of B shares shall be entitled to attend, speak and vote only in relation to such resolution and in either case shall, on a poll, be entitled to one vote per B share held.

There are no restrictions on the transfer of fully paid shares in the Company save as follows. The Board may decline to register a transfer of uncertificated shares in the circumstances set out in the Uncertificated Securities Regulations 2001: a transfer to more than four joint holders; a transfer of certificated shares which is not in respect of only one class of share; a transfer which is not accompanied by the certificate for the shares to which it relates; a transfer which is not duly stamped in circumstances where a duly stamped instrument is required; or a transfer where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the information required within the specified time. In the latter circumstances the Company may make the relevant shares subject to certain restrictions (including in respect of the ability to exercise voting rights, to transfer the shares validly and, except in the case of a liquidation, to receive the payment of sums due from the Company). Since 14 July 2009, the Company has been entitled to appoint a person to execute a transfer on behalf of all holders of B shares in acceptance of an offer, paying the holders such amount as they would have been entitled to on a winding-up of the Company.

There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares save where in accordance with Article 12 of the Company's Articles of Association a restriction notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with.

Statutory and corporate governance information

In the circumstances specified in Article 38 of the Company's Articles of Association the Company may serve a transfer notice on holders of shares. The relevant circumstances relate to (a) potential tax disadvantage to the Company, (b) the number of "United States Residents" who own or hold shares becoming 75 or more or (c) the Company being required to be registered as an investment company under relevant US legislation. The notice would require the transfer of relevant shares and pending such transfer the rights and privileges attaching to those shares would be suspended.

The Company is not aware of any agreements between holders of its securities that may restrict the transfer of shares or exercise of voting rights.

Portfolio management and voting policy

In relation to unquoted investments, the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts. In relation to quoted investments, the Group's policy is to exercise voting rights on matters affecting its interests.

Internal control

The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a 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.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised committees for decision, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Board considers and approves a strategic plan and budget on an annual basis and receives regular updates. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

The Group Risk Committee is a management committee formed by the Chief Executive and its purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year to 31 March 2013 and up to the date of this report. Details of the risk management framework can be found in the Risk section.

The overall internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the internal control guidance for Directors on the Code issued by the Turnbull Committee. The process established for the Group includes

Policies

- Core values and global policies together comprising the Group's high level principles and controls with which all staff are expected to comply
- Manuals of policies and procedures applicable to all business units, with procedures for reporting weaknesses and for monitoring corrective action, and
- A code of business conduct, with procedures for reporting compliance therewith.

Processes

- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities
- A planning framework which incorporates a Board approved strategic plan, with objectives for each business unit,
- Formal business risk reviews performed by management 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 learnt
- 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 indicators and regular re-forecasting,
- Regular reports to the Board, which analyse funding requirements, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to exchange rate movements and record the level of compliance with the Group's funding objectives
- A Group Compliance function whose role is to integrate regulatory compliance procedures and best practices into the Group's systems, and
- 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.

Verification

- An Internal Audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management,
- The external auditors who are engaged to express an opinion on the annual financial statements, and
- An Audit and Compliance Committee which considers significant control matters and receives reports from Internal Audit, the external auditors and Group Compliance on a regular basis

The internal control system is monitored and supported by Internal Audit and Group Compliance, which operate on an international basis and report to management and the Audit and Compliance Committee on the Group's operations. The work of Internal Audit is focused on the areas of greatest risk to the Group determined with reference to the Group's risk management process.

The external auditors independently and objectively review the approach of management to reporting operating results and financial condition. In co-ordination with Internal Audit, they also review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion.

Financial reporting

In the context of the above internal control framework, there are specific processes in place in relation to Financial Reporting, including:

- Comprehensive system of key control and oversight processes, including regular reconciliations, line manager reviews and systems access controls
- Updates for consideration by the Audit and Compliance Committee of accounting developments, including draft and new accounting standards and legislation,
- A separate Valuations Committee which considers the Group's investment valuation policies, application and outcome,
- Approval of the Group's budget by the Board and regular updates on actual and forecast financial performance against budget
- Reports from Internal Audit on matters relevant to the financial reporting process, including periodic assessments of internal controls, processes and fraud risk,
- Independent updates and reports from the external auditors on accounting developments, application of accounting standards, key accounting judgements and observations on systems and controls, and
- Regular risk reviews, including an assessment of risks to reliable financial reporting covering people, processes and systems, and updates on the management of identified risks or actual incidents

Auditors' independence and objectivity

Subject to annual appointment by shareholders, auditor performance is monitored on an ongoing basis and formally reviewed every five years, the last review being held during the year to 31 March 2009. Following this review the Audit and Compliance Committee concluded that Ernst & Young LLP's appointment as the Company's auditors should be continued.

The Audit and Compliance Committee recognises the importance of ensuring the independence and objectivity of the Company's auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees.

The Audit and Compliance Committee Chairman is notified of all assignments allocated to Ernst & Young over a set threshold, other than those related to due diligence within the Group's investment process where the team engaged would be independent of the audit team. Safeguards have been put in place to reduce the likelihood of compromising auditor independence, including the following principles which are applied in respect of services provided by the auditors and other accounting firms and monitored by the Audit and Compliance Committee:

- Services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors,
- Services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records, for example corporate tax services. This work is normally allocated to the auditors subject to consideration of any impact on their independence, and
- Services that could be provided by a number of firms including general consultancy work. All significant consultancy projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team. Included in this category is due diligence work relating to the investment process. If this service were to be provided by the auditors, the specific team engaged would be independent of the audit team.

Details of the fees paid to the auditors are disclosed in note 6 to the financial statements.

By order of the Board

K J Dunn

Company Secretary

15 May 2013

Registered Office

16 Palace Street London SW1E 5JD

Directors' remuneration report

“The Committee has worked to align future rewards more closely with shareholder returns and to tailor performance measures to reflect progress in implementing Group strategy.”



Jonathan Asquith
Chairman, Remuneration Committee

Remuneration Committee		
Committee members during the year	Meetings attended in the year	Meetings eligible to attend in the year
J P Asquith (Chairman)	8	8
A R Cox	8	8
W Mesdag	8	8
The Committee's terms of reference are available on the Company's website		
Advice received by the Committee during the year During the year, the Committee received external independent advice from Kepler Associates who did not provide any services to the Group during the year other than to the Remuneration Committee. Kepler Associates is a signatory to the Code of Conduct for Remuneration Consultants. The Committee also received advice from Mr S A Borrows (Chief Executive from 17 May 2012) and Mr M J Queen (Chief Executive until 16 May 2012), neither of whom advised the Committee on their own remuneration.		

Statement by the Remuneration Committee Chairman

As Remuneration Committee Chairman I am pleased to introduce the Directors' remuneration report for the financial year 1 April 2012 to 31 March 2013 ("the year") and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "the current year" relate to the financial year 1 April 2013 to 31 March 2014.

Background

Mr Borrows was appointed Chief Executive on 17 May 2012 and in June 2012 following a strategic review, announced 3i's future strategy including a major restructuring and cost reduction programme. As part of the restructuring programme, management and the Committee undertook a review of 3i's remuneration arrangements, including those of the Executive Directors.

Remuneration review objectives

The key objectives of the remuneration review were to ensure

- a fair and transparent split of returns between our key stakeholders including between shareholders and employees,
- closer alignment of remuneration arrangements with our key strategic objectives
- clearer links between shareholder returns and compensation including a greater proportion of compensation in shares, and
- greater differentiation between individuals based on their relative personal performance and contribution.

As part of the review the Board wished to ensure that the Group's new strategic objectives were clearly supported by a set of incentives, including measures and targets, that related directly to those objectives.

Outcome of the review

Following the Group-wide remuneration review, the following principles were adopted

- align employees' interests with those of shareholders and fund investors – including encouraging staff share ownership and introducing shareholding targets for senior staff
- support key strategic objectives – it needs to be clear to employees what they need to deliver and what they will be paid for doing so
- attract, retain and motivate the right talent throughout the organisation,
- ensure affordability in the short and long term – ensuring the economics of the business drive total reward
- promote sound risk management practices, and
- arrangements to be simple and cost effective to administer

Whilst this review did not result in the Committee proposing any changes to the quantum of the short- and long-term incentives for Executive Directors, it led to a refocusing of the measures attached to long-term incentives to support the Group's strategy and to a change in the policy on deferring bonus into shares. Going forward

- Performance share awards to be granted in calendar year 2013 onwards will vest based on three-year performance against a combination of stretching absolute total shareholder return targets and the achievement of a balanced scorecard of measures linked closely to our stated strategic objectives including covering operating costs with annual cash income
- 40% of Executive Directors' annual bonuses will be deferred into shares vesting in equal instalments over four years, compared to the current policy (which applies to the year just ended) of deferring the excess of bonus over 100% of base salary into shares vesting after three years. This principle will also be applied to all other members of the Executive Committee
- Higher-earning members of staff below Executive Committee will also have a portion of their bonus deferred into shares vesting in equal instalments over a three-year period, compared to the current policy where such bonuses are paid 100% in cash
- Shareholding targets for staff have been extended or for some staff members, introduced for the first time. The share ownership and retention policy will require affected staff to build up over time and thereafter maintain, a shareholding in the Company's shares equivalent to at least three times salary for the Chief Executive one and a half times salary for the Finance Director and all other members of the Executive Committee and one times salary for staff designated as "partners" in the Group's businesses

This report will be the subject of a resolution at our forthcoming AGM which I hope you will support

Jonathan Asquith

Chairman, Remuneration Committee

15 May 2013




Remuneration Policy for the current and future years

Chairman and non-executive Directors

Remuneration policy for the Chairman and non-executive Directors for the current year is as set out below

Remuneration type	Benchmarking	Policy objective
Directors' fees	Competitive with fees paid by companies of comparable size and by listed financial services companies	To attract and retain Directors of the calibre required

In line with best practice the Chairman and non-executive Directors are not eligible for bonuses, long-term incentives, pensions or performance-related remuneration

To preserve independence

No changes to remuneration policy for the Chairman and non-executive Directors are expected for subsequent years

Chairman and non-executive Director annual fees are as set out below

Chairman fee	£265,000 plus £30,000 of 3i shares
Non-executive Directors	
– Board membership fee	£50,000 plus 2,500 3i shares
– Senior Independent Director fee	£10,000
Committee fees	
– Chairman	£20,000
– Member	£4,000

Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee

The fees shown above took effect from 1 April 2011 and are to remain unchanged for the current year

Directors' remuneration report

Executive Directors		
As part of the Group-wide remuneration review referred to above, and following consultation with shareholders, the Committee adopted a new remuneration policy for Executive Directors for the current year as set out in the summary table below		
Remuneration element	Operation for the current year to 31 March 2014	Objective
Base salary	At 1 April 2013, Mr Borrows' annual base salary was £550,000 and Mrs Wilson's was £400,000. These have not increased since their appointments to their current positions, being May 2012 for Mr Borrows and October 2008 for Mrs Wilson. Base salaries are to remain unchanged for the year to 31 March 2014.	To provide the basis for a competitive package
Pension	Employer contribution of 12% of pensionable base salary payable as a cash allowance in lieu.	To provide the basis for a competitive package
Annual bonus	Maximum bonus opportunity remains unchanged at 400% of base salary for the Chief Executive and 250% of base salary for the Finance Director. The Committee retains discretion to make adjustments to bonus arrangements in appropriate circumstances. 40% of any bonus earned in respect of performance in the current year will be deferred into shares vesting in equal instalments over four years. Deferred shares carry the right to receive dividends or other distributions. Deferred elements are subject to clawback as summarised in Clawback policy on page 80. Bonus is assessed against a balanced scorecard agreed by the Committee at the start of each financial year.	Alignment with Group strategic objectives and performance. Deferral into shares to balance delivery of short-term results with long-term value creation and to create alignment with shareholders.
Long-term incentive plan	Annual performance share awards with a face value of up to 400% of base salary for the Chief Executive and 250% of base salary for the Finance Director. Awards will be subject to a three-year performance condition. To the extent shares vest, they will be released six months following the end of the performance period together with a sum equivalent to dividends or other distributions. In appropriate exceptional circumstances the Committee can also grant restricted shares with no performance condition but subject only to leaver conditions. A one-off award was made to Mr Borrows on his appointment as a Director in recognition of awards forfeited on leaving previous employment. This award is detailed on page 82.	Alignment of reward with long-term sustainable company performance. The combination of strategic performance measures and absolute total shareholder return targets balance internal and external perspectives of performance, and align participants with shareholders' interests.
As outlined above, variable remuneration comprising annual bonus and long-term incentives is intended to form a substantial proportion of Executive Directors' total potential remuneration.		
Pay and employment conditions of other employees in the Group is one of the factors taken into account in determining the Executive Directors' remuneration including base pay increases, if any, and the quantum of annual bonus and long-term incentive awards. During the year, the Committee's decisions on Executive Directors were informed by a comprehensive Group-wide remuneration review.		
No changes to remuneration policy for the Executive Directors are expected for subsequent years although the scorecard for assessing performance for annual bonus and the performance condition attached to long-term incentive awards will be reviewed at the start of each cycle to ensure it continues to reflect strategic priorities. Details of any future changes to the scorecard will be disclosed in future Directors' remuneration reports.		

Base salary

Executive Director base salaries are as shown in the table opposite. For the current year, Executive Director base salaries will remain frozen at these levels, following a review by the Committee and taking into account pay and conditions across the Group as a whole.

Annual bonus

The final bonuses for Executive Directors for the year were awarded against a balanced scorecard agreed by the Committee following Mr Borrows' appointment as Chief Executive which is described below.

% of bonus opportunity	Measure
22%	■ Undertaking strategic review of the business ■ Announcement and implementation of new strategy ■ Reduction in complexity of organisation ■ Improving engagement with shareholders ■ Reducing discount to NAV from 31 March 2012 level
22%	Achievement of targets announced to the market on 29 June 2012 relating to headcount, operating costs and gross debt reduction
22%	Implementation of the six asset management initiatives announced on 29 June 2012 and of the Group-wide compensation review
34%	Deliverables relating to the Private Equity Infrastructure and Debt Management businesses

The Committee uses the scorecard as a prompt and guide to judgement and considers it in the wider context of risk, market and other factors.

In determining bonus levels for the year the Committee determined the level of achievements against the measures contained in the balanced scorecard as well as other matters, including risk and market factors, which it considered relevant. As can be seen from the information set out on page 19, the Group's progress during the year has been exceptional with all targets in the first three categories noted above in the balanced scorecard used for the year having been met or exceeded. The Committee also concluded that the year demonstrated strong performance in both the Private Equity and the Debt Management businesses, with the Infrastructure business also performing well.

The individual performances of both Executive Directors were judged by the Committee to be exceptional with each of them scoring highly against the measures and factors in the balanced scorecard. Mr Borrows was judged to have made a very strong start as Chief Executive, having announced on 29 June 2012 a clear strategy and immediate priorities for the Group, and subsequently ensuring the Group delivered exceptionally against those priorities. The Committee considered that he has shown very strong leadership of the Group through the year since his appointment as Chief Executive. As a result of this assessment, Mr Borrows was awarded a bonus of 360% of base salary being 90% of his maximum bonus opportunity. The Committee considered that Mrs Wilson had also demonstrated exceptional performance during the year, particularly in her contributions to the extensive organisational changes, and in her management of the Group's initiatives to achieve the gross debt and gearing targets and funding cost reductions announced on 29 June 2012. Accordingly, and as a result of the Committee's assessment of her performance in the year, Mrs Wilson was awarded a bonus of 200% of base salary being 80% of her maximum bonus opportunity.

In accordance with the bonus deferral policy applicable to the year which was set out in the 2012 Directors' remuneration report, bonus in excess of 100% of base salary is deferred into shares vesting after three years.

For the current year to 31 March 2014, Executive Directors' annual bonuses will be determined on the following revised balanced scorecard.

% of bonus opportunity	Measure
50%	Targets relating to: ■ operating costs, ■ gross interest costs ■ annual operating cash profit, ■ Private Equity realisations and ■ shareholder distributions
30%	■ deliverables relating to the Private Equity Infrastructure and Debt Management businesses
20%	■ developing the strategic vision for the Group ■ transformation of the Group's culture, ■ re-articulating people strategy and ■ maintaining good engagement with investors and maintaining the quality of the shareholder register

The Committee uses the scorecard as a prompt and guide to judgement and considers it in the wider context of risk, market and other factors.

Directors' remuneration report

Long-term incentives

The performance condition attached to Performance Share awards made in the year which were granted in July 2012 is set out in note 4 to the Long-term share awards table on page 82. The performance condition was chosen so as to align Executive Directors with shareholders' interests by linking a significant part of their potential remuneration to Total Return on Equity measured over three years.

As part of its remuneration review, the Committee adopted a new performance condition to apply to Performance Share awards to be granted in 2013 and amended the vesting arrangements so that to the extent shares vest they will be released in full six months following the end of the three year performance period.

Category and weighting		Performance measure
Absolute TSR	50%	Absolute TSR measured over three years from 1 April 2013 ■ 0% vesting below 10% pa TSR ■ 20% vesting at 10% pa TSR ■ Straight-line vesting between 10% and 18% ■ 100% vesting at 18% pa TSR
Aligning costs with income and improving capital allocation	25%	Progress achieved towards strategic objective of covering the Group's operating costs with annual cash income
	25%	Progress achieved towards specified target relating to reducing remuneration costs relative to fee income

Remuneration Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed

This scorecard has been chosen so as to link half of the Executive Directors' longer term incentives to total shareholder return whilst at the same time linking half of it to strategic objectives set by the Board.

No executive share options have been granted since calendar year 2010.

Clawback policy

The Committee has agreed a "clawback" policy which applies to long-term incentive awards and share bonus awards made during the year to Executive Directors (and certain other senior executives). Under this policy awards are subject to forfeiture or reduction (prior to vesting) in such exceptional circumstances as the Committee considers fair, reasonable and proportionate. This would include material misstatement of Group financial statements, dismissal for cause, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

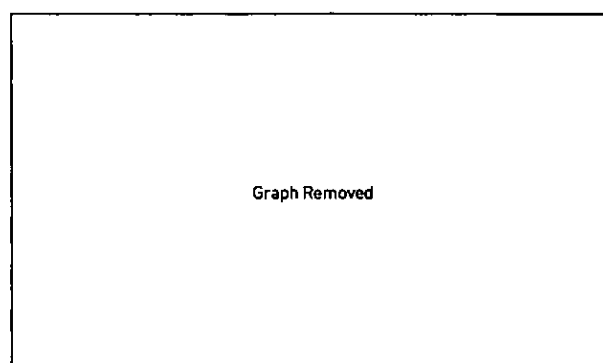
Promoting share ownership

The Company's share ownership and retention policy requires Executive Directors to build up over time, and thereafter maintain, a shareholding in the Company's shares equivalent to at least 3.0 times salary in the case of the Chief Executive and 1.5 times salary for the Finance Director. In addition, shareholding targets have been introduced for other members of Executive Committee at the 1.5 times salary level and for partners in the Group's businesses at 1.0 times salary. Details of Directors' interests in the Company's shares are shown in the Directors' report on page 66.

Performance graphs

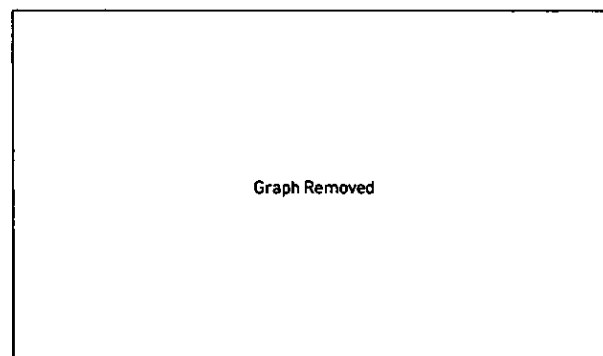
TSR graph

This graph compares the Company's total shareholder return for the five financial years to 31 March 2013 with the total shareholder return of the FTSE All-Share Index. The FTSE All-Share Index is a widely used performance comparison for UK companies.



Diluted NAV graph:

This graph compares percentage changes in the Company's diluted net asset value (NAV) per share over each of the last five financial years (with dividends reinvested) with the FTSE All-Share Index total return over the same periods. NAV prior to June 2009 has been adjusted to reflect the rights issue in June 2009.



Directors' remuneration during the year

	Salary and fees £ 000	Cash Bonus for the year £ 000	(note 1) Deferred share bonus £ 000	(note 2) Cash benefits £ 000	(note 3) Benefits In kind £ 000	Pay in lieu of notice £ 000	Total remuneration year to 31 March 2013 £'000	Total remuneration year to 31 March 2012 £ 000
Executive Directors								
S A Borrows	541	550	1,430	28	3	-	2,552	444
J S Wilson	400	400	400	14	2	-	1,216	732
Chairman and non-executive Directors (note 5)								
Sir Adrian Montague (Chairman)	295	-	-	-	-	-	295	295
J P Asquith	81	-	-	-	-	-	81	77
A R Cox	65	-	-	-	-	-	65	62
R H Meddings	87	-	-	-	-	-	87	85
W Mesdag	81	-	-	-	-	-	81	79
M G Vertuyten	61	-	-	-	-	-	61	13
Former Directors								
M J Queen (until 16 May 2012) (note 4)	113	-	-	39	2	275	429	640
Total	1,724	950	1,830	81	7	275	4,867	2,427

Notes

- Deferred share bonuses relating to the year to 31 March 2013 will be paid in ordinary shares of the Company deferred for three years
- Cash benefits for Mr Borrows included car allowance (£12k) and salary supplement in lieu of pension contributions (£14k). Cash benefits for Mrs Wilson included car allowance (£12k). Cash benefits for Mr Queen included car allowance (£7k) and salary supplement in lieu of pension contributions (£30k)
- "Benefits in kind" relate to the provision of health insurance
- On ceasing to be a Director and an employee on 16 May 2012 Mr Queen received pay in lieu of his six months notice period as shown in the table above. In December 2012 3i Investments plc entered into a consultancy agreement with Thames Bridge Capital Limited, a company associated with Mr Queen, pursuant to which that company provided reports to 3i's Board of Directors concerning areas relevant to the Group's business and in which Mr Queen had particular knowledge and expertise. Thames Bridge Capital Limited completed the consultancy work during the year and was paid a total of £293k, comprising a fee of £240k plus VAT and out-of-pocket expenses. It is not anticipated that any further work will be commissioned from Thames Bridge Capital Limited.
- Salary and fees for the Chairman and non-executive Directors include fees used to purchase 3i shares.
- In addition to the fees shown above, Mrs Wilson retained director's fees of £65k from Legal & General Group Plc and Mr Borrows retained director's fees of £61k from The British Land Company PLC and £60k from Inchcape plc.

Directors' remuneration report

Long-term share awards held by Directors during the year

	Date of award	Held at 1 April 2012	Granted during the period	Lapsed during the period	Released during the period	Held at 31 March 2013 (or cessation if earlier)	Market price on date of grant £	Date of vesting
S A Borrows	15 11 11	823,917	–	–	–	823,917	2.02	15 11 14–16
	30 11 11	513,261	–	–	171,087	342,174	1.90	17 10 12–14
	10 07 12	–	1,116,751	–	–	1,116,751	1.97	10 07 15–17
		1,337,178	1,116,751	–	171,087	2,282,842		
J S Wilson	15 06 09	147,058	–	147,058	–	–	2.72	15 06 12
	17 06 10	203,389	–	–	–	203,389	2.95	17 06 13
	28 07 11	360,724	–	–	–	360,724	2.77	28 07 14–16
	10 07 12	–	507,614	–	–	507,614	1.97	10 07 15–17
		711,171	507,614	147,058	–	1,071,727		
M J Queen (until 16 May 2012)	15 06 09	202,205	–	202,205	–	–	2.72	15 06 12
	17 06 10	540,677	–	540,677	–	–	2.95	17 06 13
	28 07 11	793,593	–	793,593	–	–	2.77	28 07 14–16
		1,536,475	–	1,536,475	–	–		

Notes

- The above awards are Performance Shares granted subject to performance conditions save for the 30 November 2011 award to Mr Borrows which was a recruitment award in recognition of awards forfeited on leaving previous employment. Vesting is subject to continued service and to the clawback policy but is not subject to a performance condition. The award vested as to one-third on 17 October 2012 (when the price of a share was £2.22) and will vest as to a further one-third on 17 October 2013 and as to the balance on 17 October 2014. The gains on long-term share awards made by the highest paid Director and by the Directors in aggregate in the year were £380k (2011: £nil).
- Save to the extent they lapsed earlier in the year awards held by Mr Queen lapsed on the cessation of his employment on 16 May 2012.
- The performance condition for Performance Shares granted in 2009 and 2010 compares the growth in value of a shareholding in the Company over three years (averaged over a 60-day period) with the FTSE 100 Index (both with dividends re-invested) as shown in the table below. This performance condition was chosen to align executive Directors' longer-term incentives to the Company's share price performance compared to the FTSE 100 Index.

Growth in value for Company versus FTSE 100 (as described above)	% of award vesting
Below the FTSE 100	Zero
Same as the FTSE 100*	35%
8% p.a. above the FTSE 100*	100%

* Between these levels awards vest pro rata

- The performance condition for Performance Shares granted in 2011 and 2012 is measured over a three-year performance period and is based on annualised three-year Total Return on Equity as shown in the table below. Total Return on Equity is equivalent to growth in net asset value with dividends deemed reinvested. This performance condition was chosen to align executive Directors' longer-term incentives to growth in the Company's net assets recognising that this is a key driver of shareholder return.

Annualised three year total return on equity	% of award vesting
Below 10% p.a.	0.0%
10%	20.0%
11%	27.5%
12%	35.0%
13%	45.0%
14%	60.0%
15%	75.0%
16%	85.0%
17%	92.5%
18%	100.0%

Between these levels awards vest pro rata

To the extent the performance condition is satisfied then subject to continued service and the clawback policy shares are released as to 50% on the third anniversary of grant, 25% on the fourth anniversary and 25% on the fifth anniversary.

- The Committee determines the fulfilment of the performance conditions based on calculations designed to be appropriate to the particular condition.

Share options held by Directors during the year

	Date of grant	Held at 1 April 2012	Lapsed during the period	Held at 31 March 2013 (or cessation if earlier)	Exercise price £	Earliest normal exercise date	Expiry date
J S Wilson	11 01 06	21,057*	–	21,057*	5.58	11 01 09	10 01 16
	15 06 09	288 808	288 808	–	2.77	15 06 12	14 06 19
	17 06 10	406,779	–	406,779	2.95	17 06 13	16 06 20
		716 644	288 808	427,836			
M J Queen (until 16 May 2012)	27 06 02	211 337	211 337	–	4.19	27 06 05	26 06 12
	25 06 03	91,884	91,884	–	3.54	25 06 06	24 06 13
	23 06 04	143,808	143 808	–	3.76	23 06 07	22 06 14
	21 06 05	71,835	71,835	–	4.32	21 06 08	20 06 15
	09 02 09	1,503,371	1,503,371	–	2.18	31 03 12	08 02 19
	15 06 09	595 667	595,667	–	2.77	15 06 12	14 06 19
	17 06 10	1,118,644	1,118,644	–	2.95	17 06 13	16 06 20
		3,736,546	3,736 546	–			

* Awarded before appointment as a Director

Notes

- No options were granted to or exercised by Directors during the year. Options were granted for nil consideration. The market price of ordinary shares in the Company at 31 March 2013 was £3.16 and the range during the period 1 April 2012 to 31 March 2013 was £1.69 to £3.25. No gains were made by the highest paid Director (2011: nil) or by the Directors in aggregate (2011: nil).
- Save to the extent they lapsed earlier in the year options held by Mr Queen lapsed on the cessation of his employment on 16 May 2012.
- Options were granted subject to a three-year performance condition relating to annual percentage compound growth in net asset value per share with dividends re-invested relative to the annual percentage change in RPI as shown below. The performance conditions were chosen to align executive Directors' longer term incentives to shareholders' interest in net asset value growth and was altered over time to reflect changing market conditions. The Committee determines the fulfilment of the performance conditions based on calculations designed to be appropriate to the particular condition.

Award granted	NAV growth required for minimum vesting	% vesting	NAV growth required for maximum vesting	% vesting	For NAV growth between minimum and maximum vesting levels
Since 31 March 2005	RPI + 3 percentage points	30%	RPI + 8 percentage points	100%	The grant vests pro rata
In year to 31 March 2005	RPI + 3 percentage points	50%	RPI + 8 percentage points	100%	The grant vests pro rata
Before 31 March 2004	RPI + 5 percentage points	50%	RPI + 10 percentage points	100%	The grant vests pro rata

Share Incentive Plan

Participants in the HMRC approved Share Incentive Plan (SIP) invest up to £125 per month from pre-tax salary in ordinary shares (Partnership Shares). For each Partnership Share the Company grants two free ordinary shares (Matching Shares) which are normally forfeited if employment ceases (other than on retirement or for other "qualifying reasons") within three years of grant. Dividends are reinvested in further ordinary shares (Dividend Shares).

	Held at 31 March 2012 Partnership Shares		Held at 31 March 2012 Matching Shares		Held at 31 March 2012 Dividend Shares		Held at 31 March 2013 (or cessation if earlier) Partnership Shares		Held at 31 March 2013 (or cessation if earlier) Matching Shares		Held at 31 March 2013 (or cessation if earlier) Dividend Shares	
	Ord	B	Ord	B	Ord	B	Ord	B	Ord	B	Ord	B
J S Wilson	2 347	344	4 694	690	256	4	3 030	344	6 060	690	549	4
M J Queen (until 16 May 2012)	3 038	975	6 074	1 998	704	20	3 105	975	6 208	1 998	704	20

Notes

- From 1 April 2013 to 1 May 2013 Mrs Wilson acquired a further 37 Partnership and 74 Matching ordinary shares.
- Ordinary shares were awarded in the year at prices between £1.72 and £3.13 per share with an average price of £2.27 per share. B shares held within the plan result from the bonus issues of B shares in 2006 and 2007. Shares within the SIP are held by a nominee on behalf of participants. The nominee exercises the votes on such shares on the participants' instructions.

Directors' remuneration report

Pension arrangements

Mrs Wilson was a member of the 3i Group Pension Plan, a defined benefit contributory scheme, in the year to 31 March 2013. Pension accrual ceased for all members with effect from 5 April 2011, although a link to final salary is maintained for existing accrual up to the date of leaving the Company. Further details of the Plan are set out in note 9 to the financial statements on pages 102 to 104.

		(note 1)	(note 2)	(note 3)	(note 1)	(note 2)	(note 4)	(note 4)		
			Increase in accrued pension (excluding inflation)	Total accrued pension at	Director's own contributions (excluding AVCs) paid	Increase in accrued pension (including inflation)	Transfer value of the accrued benefits at	Transfer value of the accrued benefits at	Difference between transfer values at start and end of the accounting year less Director's contribution	Transfer value at the end of the year of the increase in accrued benefits during the year less Director's contribution
Age at 31 March 2013	Complete years of pensionable service at 31 March 2013	31 March 2013 £'000 p a	31 March 2013 £'000 p a	31 March 2013 £'000 p a	31 March 2013 £'000 p a	31 March 2013 £'000 p a	31 March 2013 £'000	31 March 2012 £'000	£'000	£'000
J S Wilson	45	5	0.5	14.3	0.0	0.8	387.3	360.6	26.7	10.5

Notes

- 1 The Plan closed to future accrual on 5 April 2011 and pensionable service ceased at this date. No member contributions were paid into the Plan during the year.
- 2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.
- 3 The pension shown is a deferred pension payable from the Normal Retirement Age of 60.
- 4 The transfer values have been calculated in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996.
- 5 Additional voluntary contributions are excluded from the above table.

Mrs Wilson joined the 3i Retirement Plan, a defined contribution stakeholder pension scheme, with effect from 6 April 2011. During the year the Company made contributions of £55k to this plan in respect of Mrs Wilson.

Directors' service contracts

The main terms of the service contracts of the Executive Directors who served in the year were as follows:

Dates of contracts	Mr S A Borrows	17 May 2012
	Mrs J S Wilson	1 October 2008
	Mr M J Queen	31 March 2009
Notice period	– by the Director	– Six months
	– by the Company	– 12 months
Termination payments	Company policy is that Executive Directors' notice periods should not normally exceed one year. Save for these notice periods the contracts have no unexpired terms.	
	There were no provisions for compensation of Executive Directors on early termination save that (a) Mr Borrows and Mr Queen's contracts entitle the Company to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment and (b) all Directors' contracts entitle the Company to give pay in lieu of notice.	

The Chairman and the non-executive Directors do not have service contracts or contracts for services. Their appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director.

Arrangements relating to Mr Queen's previous responsibilities

Mr Queen, who resigned as Chief Executive on 16 May 2012, had interests in arrangements relating to his previous roles as Managing Partner, Infrastructure and Managing Partner, Growth Capital

M J Queen Until 16 May 2012	Amounts co-invested		Scheme interests being the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits						Amounts receivable in respect of scheme interests in period £ 000	Accrued value of scheme interests as at 16 May 2012 £ 000
			Invested during the period £ 000	Total invested to 16 May 2012 £ 000	As at 1 April 2012 (%)	Awarded in period (%)	Forfeited in period (%)	As at 16 May 2012 (%)	End of period over which interests may vest	
Global Growth Co-invest 2006-08 plans	-	97	-	0.023	-	-	-	0.023	31 07 08	nil
Pan-European Growth Capital 2005-06	-	-	-	0.44	-	-	-	0.44	31 03 10	268
Infrastructure 2005-06	-	-	-	0.69	-	-	0.69	-	16 05 10	nil
Primary Infrastructure 2005-06	-	-	-	0.53	-	-	-	0.53	19 08 10	161
Global Growth 2006-08 plans	-	-	-	0.34	-	-	0.34	-	31 03 11	nil
Global Growth 08-10	-	18	-	0.03	-	-	0.01	0.02	31 03 13	nil
India Infrastructure 07-10	-	285	-	1.00	-	-	0.10	0.90	30 09 12	nil

Notes

- As a result of the cessation of his employment on 16 May 2012, a proportion of Mr Queen's interest in the Global Growth 08-10 and India Infrastructure 07-10 plans was forfeited. As the Infrastructure 2005-06 and Global Growth 2006-08 plans were liquidated during the year, Mr Queen's entire interests in these plans terminated. During the year but after the termination of his employment, Mr Queen received £27k from the Pan-European Growth Capital Fund and £5k from the Infrastructure 2005-06 Fund. It is anticipated that in the current year, Mr Queen will receive a payment of £171k (less termination expenses) plus a return of a capital commitment of £5k in relation to the Primary Infrastructure 2005-06 Fund, which will represent his entire interest in that fund which will then terminate.
- Accrued values of plan interests are calculated on the basis set out in note 5 on page 99. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to an actual payment to the participant. Accrued values as at 16 May 2012 shown above are the same as the accrued values as at 31 March 2012 since as at 16 May 2012 no revaluation of the scheme interests had taken place.

Audit

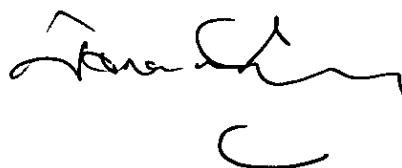
The tables in this report (including the notes thereto) on pages 81 to 85 have been audited by Ernst & Young LLP

By Order of the Board

Jonathan Asquith

Chairman, Remuneration Committee

15 May 2013



Financial statements

Statement of comprehensive income

for the year to 31 March

	Notes	2013 £m	2012 £m
Realised profits over value on the disposal of investments	2	195	23
Unrealised profits/(losses) on the revaluation of investments	3	250	(498)
		445	(475)
Portfolio income			
Dividends		43	47
Income from loans and receivables		54	95
Fees receivable	4	4	4
Gross portfolio return	1	546	(329)
Fees receivable from external funds	1	71	89
Carried interest			
Carried interest receivable from external funds	5	4	(15)
Carried interest and performance fees payable	5	(19)	10
Operating expenses	6	(170)	(180)
Net portfolio return	1	432	(425)
Interest receivable	10	6	12
Interest payable	10	(97)	(103)
Movement in the fair value of derivatives	11	(6)	(19)
Exchange movements		(143)	(243)
Other (loss)/income		(3)	1
Profit/(loss) before tax		189	(777)
Income taxes	12	(6)	(6)
Profit/(loss) for the year		183	(783)
Other comprehensive income			
Exchange differences on translation of foreign operations		173	194
Actuarial gain/(loss)	9	17	(67)
Other comprehensive income for the year		190	127
Total comprehensive income/(loss) for the year (Total return)		373	(656)
Earnings per share			
Basic (pence)	27	19.5	(82.8)
Diluted (pence)	27	19.4	(82.8)

Consolidated statement of changes in equity

for the year to 31 March

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Other reserves £m	Own shares £m	Total equity £m
2013 Group										
Total equity at the start of the year	717	780	43	11	457	233	491	–	(105)	2,627
Income/(loss) for the year						107	76			183
Exchange differences on translation of foreign operations					173					173
Actuarial gain						17				17
Total comprehensive income for the year	–	–	–	–	173	124	76	–	–	373
Share-based payments				9						9
Release on forfeiture of share options				(3)			3			–
Loss on sale of own shares						(1)			1	–
Ordinary dividends							(76)			(76)
Issue of ordinary shares	1									1
Total equity at the end of the year	718	780	43	17	630	356	494	–	(104)	2,934
2012 Group										
Total equity at the start of the year	717	779	43	17	263	1,093	526	5	(86)	3,357
(Loss)/income for the year						(786)	3			(783)
Exchange differences on translation of foreign operations					194					194
Actuarial loss						(67)				(67)
Total comprehensive income/(loss) for the year	–	–	–	–	194	(853)	3	–	–	(656)
Release on lapse of equity settled call options						5		(5)		–
Share-based payments				5						5
Release on forfeiture of share options				(11)			11			–
Purchase of own shares									(31)	(31)
Loss on sale of own shares						(12)			12	–
Ordinary dividends							(49)			(49)
Issue of ordinary shares		1								1
Total equity at the end of the year	717	780	43	11	457	233	491	–	(105)	2,627

Company statement of changes in equity

for the year to 31 March

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Other reserves £m	Total equity £m
2013 Company								
Total equity at the start of the year	717	780	43	11	936	232	–	2,719
Profit for the year					400	(15)		385
Total comprehensive income for the year	–	–	–	–	400	(15)	–	385
Share-based payments				9				9
Release on forfeiture of share options				(3)		3		–
Ordinary dividends						(76)		(76)
Issue of ordinary shares	1							1
Total equity at the end of the year	718	780	43	17	1,336	144	–	3,038
2012 Company								
Total equity at the start of the year	717	779	43	17	1,614	291	5	3,466
Loss for the year					(683)	(21)		(704)
Total comprehensive loss for the year	–	–	–	–	(683)	(21)	–	(704)
Release on lapse of equity settled call options					5		(5)	–
Share-based payments				5				5
Release on forfeiture of share options				(11)		11		–
Ordinary dividends						(49)		(49)
Issue of ordinary shares		1						1
Total equity at the end of the year	717	780	43	11	936	232	–	2,719

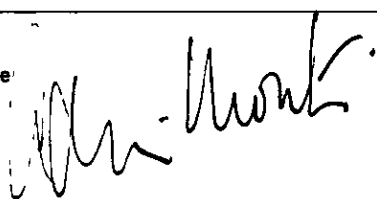
Statement of financial position

as at 31 March

	Notes	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Assets					
Non-current assets					
Investments					
Quoted equity investments		431	535	243	392
Unquoted equity investments		1,566	1,392	798	299
Loans and receivables		1,250	1,242	645	179
Investment portfolio	13	3,247	3,169	1,686	870
Carried interest receivable		20	36	9	24
Interests in Group entities	14	–	–	1,681	2,324
Intangible assets	16	32	17	–	–
Retirement benefit surplus	9	120	56	–	–
Property, plant and equipment	17	7	13	–	4
Derivative financial instruments	20	–	6	–	6
Deferred income taxes	12	3	2	–	–
Total non-current assets		3,429	3,299	3,376	3,228
Current assets					
Traded portfolio	13	48	35	–	–
Other current assets	18	85	102	118	105
Derivative financial instruments	20	4	7	4	7
Deposits		90	441	90	441
Cash and cash equivalents		656	718	573	541
Total current assets		883	1,303	785	1,094
Total assets		4,312	4,602	4,161	4,322
Liabilities					
Non-current liabilities					
Carried interest and performance fees payable		(39)	(45)	(9)	–
Loans and borrowings	21	(855)	(1,358)	(855)	(1,152)
B shares		(6)	(6)	(6)	(6)
Retirement benefit deficit	9	(14)	(10)	–	–
Derivative financial instruments	20	(55)	(41)	(55)	(41)
Deferred income taxes	12	(3)	(5)	–	–
Provisions	23	(8)	(2)	–	–
Total non-current liabilities		(980)	(1,467)	(925)	(1,199)
Current liabilities					
Trade and other payables	22	(192)	(225)	(193)	(173)
Carried interest and performance fees payable		(29)	(40)	–	–
Loans and borrowings	21	(164)	(231)	–	(231)
Derivative financial instruments	20	(5)	–	(5)	–
Current income taxes	12	(2)	(3)	–	–
Deferred income taxes	12	(1)	(1)	–	–
Provisions	23	(5)	(8)	–	–
Total current liabilities		(398)	(508)	(198)	(404)
Total liabilities		(1,378)	(1,975)	(1,123)	(1,603)
Net assets		2,934	2,627	3,038	2,719
Equity					
Issued capital	24	718	717	718	717
Share premium		780	780	780	780
Capital redemption reserve	25	43	43	43	43
Share-based payment reserve	25	17	11	17	11
Translation reserve	25	630	457	–	–
Capital reserve	25	356	233	1,336	936
Revenue reserve	25	494	491	144	232
Own shares	26	(104)	(105)	–	–
Total equity		2,934	2,627	3,038	2,719

Sir Adrian Montague
Chairman

15 May 2013



Cash flow statement

for the year to 31 March

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Cash flow from operating activities				
Purchase of investments	(149)	(447)	(259)	(704)
Proceeds from investments	606	771	639	828
Net (purchase)/proceeds from traded portfolio	(23)	(17)	–	–
Portfolio interest received	15	9	5	3
Portfolio dividends received	43	44	30	24
Portfolio fees received	4	7	(1)	–
Fees received from external funds	70	91	–	–
Carried interest received	20	30	19	29
Carried interest and performance fees paid	(30)	(40)	–	–
Operating expenses	(190)	(240)	(53)	(85)
Interest received	7	12	7	11
Interest paid	(118)	(101)	(114)	(97)
Income taxes paid	(7)	(7)	–	–
Net cash flow from operating activities	248	112	273	9
Cash flow from financing activities				
Purchase of own shares	–	(31)	–	–
Dividend paid	(76)	(49)	(76)	(49)
Repayment of short-term borrowings	(304)	–	(253)	–
Repayment of long-term borrowings and convertible bond	–	(169)	–	(169)
Repurchase of long-term borrowings	(267)	(201)	(267)	(184)
Net cash flow from derivatives	11	(5)	11	(5)
Net cash flow from financing activities	(636)	(455)	(585)	(407)
Cash flow from investing activities				
Acquisition of management contracts and other Debt Management business development	(18)	–	–	–
Purchase of property, plant and equipment	(1)	(2)	–	–
Proceeds on sale of property, plant and equipment	1	1	1	–
Net cash flow from deposits	351	119	351	119
Net cash flow from investing activities	333	118	352	119
Change in cash and cash equivalents	(55)	(225)	40	(279)
Cash and cash equivalents at the start of year	718	961	541	836
Effect of exchange rate fluctuations	(7)	(18)	(8)	(16)
Cash and cash equivalents at the end of year	656	718	573	541

Significant accounting policies

3i Group plc (the Company) is a company registered in England and Wales. The consolidated financial statements for the year to 31 March 2013 comprise the financial statements of the Company and its subsidiaries (together referred to as the Group). Separate financial statements of the Company are also presented.

The accounting policies of the Company are the same as for the Group except where separately disclosed.

The financial statements were authorised for issue by the Directors on 15 May 2013.

A Statement of compliance

These consolidated and separate 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 consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 2006.

New standards and interpretations not applied

The IASB has issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

	Effective for period beginning on or after
IFRS 7 Amendment to offsetting financial assets and liabilities	1 January 2013
IFRS 9 Financial instruments – classification and measurement	1 January 2015
IFRS 10 Consolidated financial statements	1 January 2014
IFRS 11 Joint arrangements	1 January 2014
IFRS 12 Disclosure of interest in other entities	1 January 2014
IFRS 13 Fair value measurement	1 January 2013
IAS 19 Amendment to employee benefits	1 January 2013
IAS 27 Amendment to separate financial statements	1 January 2014
IAS 28 Amendment to Investments in associates and joint ventures	1 January 2014
IAS 32 Amendment to offsetting financial assets and financial liabilities	1 January 2014

With the exception of IFRS 10, 11, 12 and IAS 27 and 28 the Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

The initial application of IFRS 10 and 12 could have a material effect on the financial statements of the Group. The principle potential impact is the consolidation of the portfolio investments and funds managed by 3i in the Group financial statements. In October 2012 the IASB announced amendments to these standards. The amendments define an Investment Entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments instead of consolidating those subsidiaries in its consolidated and separate financial statements. As currently drafted, we expect that 3i Group plc will qualify as an Investment Entity. However, we will not be able to adopt this standard until it has been endorsed by the EU.

B Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. The most significant estimates relate to the fair valuation of the investment portfolio and the actuarial valuation of the defined benefit pension scheme. These are further disclosed in accounting policies C, E and K and notes 9 and 13. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The statement of comprehensive income of the Company has been omitted from these financial statements in accordance with section 408 of the Companies Act 2006.

The accounting policies have been consistently applied across all Group entities for the purposes of producing these consolidated financial statements.

Significant accounting policies

C Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(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 statement of financial position 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 requires 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 period of the change. The Group has no interests in associates through which it carries on its business.

(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 IAS 31 Interests in Joint Ventures, which requires venturer's 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 period of the change.

D Exchange differences

(i) Foreign currency transactions

Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date.

Foreign exchange differences arising on translation 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 transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the date the fair value was determined.

(ii) Financial statements of non-sterling operations

The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised in other comprehensive income and accumulated within a separate component of equity, the Translation reserve, and are released upon disposal of the non-sterling operation.

In respect of non-sterling operations, cumulative translation differences on the consolidation of non-sterling operations are being accumulated from the date of transition to IFRS 1 April 2004 and not from the original acquisition date.

E Investment portfolio

(i) 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 capital appreciation from changes in the fair value of equity investments.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date where the investment is quoted on an active stock market.

Unquoted equity investments are designated at fair value through profit and loss and are subsequently carried in the balance sheet at fair value. Fair value is measured using the International Private Equity and Venture Capital valuation guidelines (IPEV), details of which are in the section called Portfolio valuation – an explanation.

Other investments includes loan investments, bonds and fixed income shares. Loans, bonds and fixed income shares are carried in the balance sheet at amortised cost less impairment. For more detail see the section called Portfolio valuation – an explanation. The fair value of loans and receivables is not anticipated to be substantially different to the holding value.

The traded portfolio includes investments in loans and associated investments which are traded on a regular basis within Palace Street I, the Credit Opportunities Fund. These loans are measured at fair value through profit or loss upon initial recognition and classified as held for trading in accordance with IAS 39.

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 3i Group's valuation policies.

Interest bearing loans accrue interest which is either settled in cash or capitalised on a regular basis and included as part of the principal loan balance. The capitalisation of accrued interest is treated as part of investment additions during the year. If the fair value of an investment is assessed to be below the principal value of the loan the Group recognises a provision against any interest income accrued from the date of the assessment going forward. "Capitalisation at nil value" is the term used to describe the capitalisation of accrued interest which has been fully provided for. These transactions are disclosed as additions to portfolio cost with an equal reduction in portfolio value.

(ii) Income

Gross portfolio return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs but excluding exchange movements. Investment income is analysed into the following components:

(a) Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration received less any directly attributable costs on the sale of equity, traded loans and the repayment of loans and receivables and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

(b) Unrealised profits or losses on the revaluation of investments are the movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.

(c) 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 economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

- Dividends from equity investments are recognised in the statement of comprehensive income when the shareholders' rights to receive payment have been established.
- Income from loans and receivables and the traded portfolio 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. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.
- Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

F Fees receivable from external funds

(i) Fund management fees

The Group manages private equity, infrastructure and debt management funds. Fees earned from the ongoing management of these funds are recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(ii) Advisory fees

The Group acts as investment adviser to private equity and infrastructure funds. Fees earned from the provision of investment advisory services are recognised on an accruals basis in accordance with the substance of the relevant investment advisory agreement.

(iii) Performance fees

The Group earns a performance fee from funds to which it provides investment advisory services where specified performance targets are achieved. Performance fees are recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(iv) Support services fees

The Group provides support services to external funds including accounting, treasury management, corporate secretariat and investor relations. Fees earned from the provision of these support services are recognised on an accruals basis in accordance with the relevant support services agreement.

Significant accounting policies

G Carried interest

(i) Carried interest receivable

The Group earns a share of profits (carried interest receivable) from funds which it manages on behalf of third parties. These profits are earned once the funds meet certain performance conditions.

Carried interest receivable is only accrued on those managed funds in which the fund's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

(ii) Carried interest payable

The Group offers investment executives the opportunity to participate in the returns from successful investments. Carried interest payable is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest scheme. Carried interest payable is only accrued on those schemes in which the scheme's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme.

H Intangible assets

Fund management contracts, such as those acquired by the Group in connection with the acquisition of a subsidiary, are stated at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of the fund management contract, typically five to 10 years.

I Property, plant and equipment

(i) Land and buildings

Land and buildings are carried in the balance sheet at fair value less depreciation and impairment. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Any revaluation surplus is recognised in other comprehensive income and credited to the Capital reserve except to the extent that it reverses a previous valuation deficit on the same asset recognised in profit or loss in which case the surplus is recognised in profit or loss to the extent of the previous deficit.

Any revaluation deficit that offsets a previously recognised surplus in the same asset is directly offset against the surplus in the Capital reserve. Any excess valuation deficit over and above that previously recognised in surplus is recognised in the statement of comprehensive income.

Depreciation on revalued buildings is charged in the statement of comprehensive income over their estimated useful life, generally over 50 years.

(ii) Vehicles and office equipment

Vehicles and office equipment are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years, computer equipment three years, computer software three years, motor vehicles four years.

(iii) Assets held under finance leases

Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term. Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The interest element of the rental obligations is charged in the statement of comprehensive income over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

(iv) Leasehold improvements

Leasehold improvements are depreciated by equal annual instalments over the shorter of their estimated useful lives and the lease term. Assets are reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

J Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and 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. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

(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 and other short-term highly liquid investments that are readily convertible into cash and are subject to insignificant risk of changes in value net of bank overdrafts.

(ii) Deposits

Deposits in the balance sheet comprise longer term deposits with an original maturity of greater than three months.

(iii) Bank loans, loan notes and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these 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.

(iv) Derivative financial instruments

Derivative financial instruments are used to manage the risk associated with foreign currency fluctuations of the investment portfolio and changes in interest rates on its borrowings. This is achieved by the use of foreign exchange contracts, currency swaps and interest rate swaps. All derivative financial instruments are held at fair value.

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. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of financial instruments are taken to the statement of comprehensive income.

K Employee benefits**(i) Retirement benefit costs**

Payments to defined contribution retirement benefit plans are charged to the statement of comprehensive income as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Current service costs are recognised in the statement of comprehensive income. Actuarial gains or losses are recognised in full as they arise in other comprehensive income.

A retirement benefit deficit is recognised in the balance sheet to the extent that the present value of the defined benefit obligations exceeds the fair value of plan assets.

A retirement benefit surplus is recognised in the balance sheet where the fair value of plan assets exceeds the present value of the defined benefit obligations limited to the extent that the Group can benefit from that surplus.

(ii) Share-based payments

The costs of share based payments made by the Company in respect of subsidiaries' employees are treated as additional investments in those subsidiaries.

The Group has equity-settled and cash settled share-based payment transactions with certain employees. Equity settled schemes are measured at fair value at the date of grant, which is then recognised in the statement of comprehensive income on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative charges since the previous balance sheet is recognised in the statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash settled share based payment transactions are recognised in the statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash settled share based payment transactions is adjusted for the forfeitures of the participants' rights that no longer meet the plan requirements as well as for early vesting.

Significant accounting policies

L Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They 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 the level of impairment is recognised directly in the statement of comprehensive income. An impairment loss is reversed at subsequent balance sheet dates to the extent that the asset's carrying amount does not exceed its carrying value had no impairment been recognised.

M 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 balance sheet date.

N Share capital

Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

O Provisions

Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the statement of comprehensive income for the period.

P 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 where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the 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.

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 ("temporary differences") and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable differences arising on investments in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control reversal of the temporary difference and it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the financial statements

1 Segmental analysis

Operating segments are components of the entity whose results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and to assess its performance. The chief operating decision-maker for the Group is considered to be the Chief Executive Officer. The Group's operating segments have been defined as the Group's business lines, namely Private Equity, Infrastructure and Debt Management. The business lines are determined with reference to market focus, geographic focus, and investment funding model.

The performance of operating segments is assessed based on the net portfolio return, principally comprising gains and losses on investments and investment income, fees received from management of external funds and the associated costs of the business line. Segmental assets are represented by the investment portfolio value for each business line.

Year to 31 March 2013	Private Equity ¹ £m	Infrastructure £m	Debt Management £m	Total £m
Gross portfolio return				
Realised profits over value on the disposal of investments	190	–	5	195
Unrealised profits/(losses) on the revaluation of investments	250	(2)	2	250
Portfolio income				
Dividends	22	18	3	43
Income from loans and receivables	52	–	2	54
Fees receivable/(payable)	4	–	–	4
	518	16	12	546
Net portfolio return				
Fees receivable from external funds	19	21	31	71
Carried interest receivable from external funds	4	1	(1)	4
Carried interest and performance fees payable	(11)	(2)	(6)	(19)
Operating expenses	(114)	(24)	(32)	(170)
	416	12	4	432
Net divestment/(investment)				
Realisations	575	31	–	606
Cash investment	(121)	(5)	(46)	(172)
	454	26	(46)	434
Balance sheet				
Value of investment portfolio at the end of the year	2,707	507	81	3,295

1 The Private Equity business line now includes Non-core investments which were previously disclosed separately

Year to 31 March 2012	Private Equity ¹ £m	Infrastructure £m	Debt Management £m	Total £m
Gross portfolio return				
Realised profits over value on the disposal of investments	22	–	1	23
Unrealised losses on the revaluation of investments	(488)	(7)	(3)	(498)
Portfolio income				
Dividends	27	18	2	47
Income from loans and receivables	94	–	1	95
Fees receivable/(payable)	4	–	–	4
	(341)	11	1	(329)
Net portfolio return				
Fees receivable from external funds	32	25	32	89
Carried interest receivable from external funds	(13)	(14)	12	(15)
Carried interest and performance fees payable	13	8	(11)	10
Operating expenses	(132)	(17)	(31)	(180)
	(441)	13	3	(425)
Net divestment/(investment)				
Realisations	770	1	–	771
Cash investment	(377)	(70)	(17)	(464)
	393	(69)	(17)	307
Balance sheet				
Value of investment portfolio at the end of the year	2,634	528	42	3,204

1 The Private Equity business line now includes Non-core investments which were previously disclosed separately

Notes to the financial statements

1 Segmental analysis (continued)

Year to 31 March 2013	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
Gross portfolio return						
Realised profits over value on the disposal of investments	56	30	107	3	(1)	195
Unrealised profits/(losses) on the revaluation of investments	86	197	27	(61)	1	250
Portfolio income	44	40	14	2	1	101
	186	267	148	(56)	1	546
Net divestment/(investment)						
Realisations	150	231	222	3	–	606
Cash investment	(4)	(102)	(61)	(5)	–	(172)
	146	129	161	(2)	–	434
Balance sheet						
Value of investment portfolio at the end of the year	1,048	1,542	262	437	6	3,295

Year to 31 March 2012	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
Gross portfolio return						
Realised (losses)/profits over value on the disposal of investments	(19)	40	1	1	–	23
Unrealised losses on the revaluation of investments	(36)	(351)	(4)	(107)	–	(498)
Portfolio income	66	59	21	–	–	146
	11	(252)	18	(106)	–	(329)
Net divestment/(investment)						
Realisations	76	670	9	16	–	771
Cash investment	(55)	(373)	(18)	(18)	–	(464)
	21	297	(9)	(2)	–	307
Balance sheet						
Value of investment portfolio at the end of the year	1 029	1 421	278	470	6	3 204

2 Realised profits over value on the disposal of investments

	2013 Unquoted equity £m	2013 Quoted equity £m	2013 Loans and receivables £m	2013 Traded portfolio £m	2013 Total £m
Realisations	351	120	135	–	606
Valuation of disposed investments	(166)	(113)	(133)	5	(407)
Investments written off	(4)	–	–	–	(4)
	181	7	2	5	195

	2012 Unquoted equity £m	2012 Quoted equity £m	2012 Loans and receivables £m	2012 Traded portfolio £m	2012 Total £m
Realisations	557	1	213	–	771
Valuation of disposed investments	(517)	(2)	(197)	1	(715)
Investments written off	–	–	(33)	–	(33)
	40	(1)	(17)	1	23

3 Unrealised profits/(losses) on the revaluation of investments

	2013 Unquoted equity £m	2013 Quoted equity £m	2013 Loans and receivables £m	2013 Traded portfolio £m	2013 Total £m
Movement in the fair value of equity and traded loans	215	11	–	(1)	225
Provisions recovered loan impairments and other movements	–	–	25	–	25
	215	11	25	(1)	250

	2012 Unquoted equity £m	2012 Quoted equity £m	2012 Loans and receivables £m	2012 Traded portfolio £m	2012 Total £m
Movement in the fair value of equity and traded loans	(160)	(20)	–	(1)	(181)
Provisions loan impairments and other movements	(64)	–	(253)	–	(317)
	(224)	(20)	(253)	(1)	(498)

Provisions have been recognised only on investments where it is considered there is a greater than 50% risk of the Group's investment failing. All other equity value movements are included within the movement in the fair value of equity.

4 Fees receivable

	2013 £m	2012 £m
Fees receivable	6	12
Deal-related costs	(2)	(8)
	4	4

Fees receivable include fees arising from the ongoing management of the portfolio together with fees arising from making investments. Deal-related costs represent fees incurred on aborted deals and fees incurred in the process of acquiring an investment.

5 Carried interest and performance fees payable

	2013 £m	2012 £m
Carried interest receivable from external funds	4	(15)
Carried interest and performance fees payable	(19)	10
	(15)	(5)

Carried interest receivable represents the Group's share of profits from external funds. Each fund is reviewed at the balance sheet date and income is accrued based on fund profits in excess of the performance conditions within the fund, taking into account cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest and performance fees payable represents the amount payable to executives from the Group's carried interest schemes and also includes the fees payable to Infrastructure and Debt Management executives that are based on fund performance. As with carried interest receivable, each scheme is separately reviewed at the balance sheet date, and an accrual made equal to the executives' share of profits once the performance conditions in the scheme have been met.

6 Operating expenses

Operating expenses include the following amounts:

	2013 £m	2012 £m
Depreciation of property, plant and equipment	1	3
Amortisation of fund management contracts	6	4
Audit fees	2	2
Staff costs (note 7)	84	98
Restructuring and redundancy costs	30	9

Notes to the financial statements

6 Operating expenses (continued)

Services provided by the Group's auditors

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

	2013 £m	2012 £m
Audit services		
Statutory audit – Company	13	12
– UK subsidiaries	05	05
– Overseas subsidiaries	02	02
Audit-related regulatory reporting	–	01
	20	20
Non-audit services		
Other assurance services	02	01
Investment due diligence	01	04
Tax services (compliance and advisory services)	01	02
	24	27

Non-audit services

These services are services that could be provided by a number of firms and include general consultancy work. Work is allocated to the auditors only if it does not impact the independence of the audit firm.

In addition to the above, Ernst & Young LLP has received fees from investee companies. It is estimated that Ernst & Young LLP receive less than 20% of the total investment-related fees paid to the four largest accounting firms.

Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of the auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for audit services to the pension scheme during the year were less than £0.1 million (2012: less than £0.1 million).

7 Staff costs

	2013 £m	2012 £m
Wages and salaries	66	72
Social security costs ¹	9	12
Share-based payment costs (note 8)	4	6
Pension costs	5	8
	84	98

¹ Excludes £4m of social security cost included in restructuring and redundancy costs.

The average number of employees during the year was 358 (2012: 472).

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

	2013 £m	2012 £m
Fixed staff costs	52	69
Variable staff costs	32	29
	84	98

8 Share-based payments

The total cost recognised in the statement of comprehensive income is shown below.

	2013 £m	2012 £m
Share options ¹	(1)	(1)
Share awards included as operating expenses ¹	4	6
Share awards included as carried interest ¹	6	–
Share incentive plan	–	1
Cash settled share awards	1	(1)
Accrual for share-based bonus	–	1
	10	6

¹ Credited to equity.

The features of the Group's share schemes are set out on pages 101 and 102. For legal, regulatory or practical reasons certain participants may be granted 'phantom awards' under these schemes which are intended to replicate the financial effects of a share award without entitling the participant to acquire shares. The carrying amount of liabilities arising from share-based payment transactions at 31 March 2013 is £2 million (2012: £1 million). The intrinsic value of liabilities arising from share-based payment transactions which have vested by 31 March 2013 is £nil (2012: £nil).

8 Share-based payments (continued)

The following information shows details of the share-based payment awards made during the year

	Share awards	Cash settled share awards
Grant date	June 2012 July 2012 August 2012	July 2012 August 2012
Vesting period	2-3 years	2-3 years
Life of the award	10 years	10 years
Valuation methodology	Share price at grant	Share price at grant
Weighted average fair value of awards granted	2.01	2.11

Share options

Options granted under the 3i Group Discretionary Share Plan are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance condition has been met over a performance period of three years from the date of grant. Details of the performance conditions to which unvested options are subject are set out in the Directors' remuneration report.

Details of share options outstanding during the year are as follows

	2013 Number of share options	2013 Weighted average exercise price (pence)	2012 Number of share options	2012 Weighted average exercise price (pence)
Outstanding at the start of the year	9,739,142	341	15,608,993	366
Lapsed	(5,577,357)	308	(5,869,851)	408
Expired	(589,204)	416	—	—
Outstanding at the end of year	3,572,581	380	9,739,142	341
Exercisable at the end of year	3,165,802	391	5,063,933	395

Included within the total number of share options are no options over shares that were granted on or before 7 November 2002 and therefore have not been recognised in accordance with IFRS 2 (2012: 1 million options).

The range of exercise prices for options outstanding at the year end was

Grant date year to 31 March	2013 Weighted average exercise price (pence)	2013 Number	2012 Weighted average exercise price (pence)	2012 Number
2003	—	—	417	819,294
2004	356	813,203	355	1,068,850
2005	372	1,206,616	373	1,652,911
2006	435	1,145,983	434	1,522,878
2007	—	—	—	—
2008	—	—	—	—
2009	—	—	—	—
2010	—	—	277	3,149,786
2011	295	406,779	295	1,525,423
	380	3,572,581	341	9,739,142

Options are exercisable at a price based on the market value of the Company's shares on the date of grant.

No options were exercised during the year (2012: nil). The options outstanding at the end of the year have a weighted average contractual life of 2.02 years (2012: 4.67 years). The cost of share options has been spread over the vesting period of three to five years. No options were granted during the year.

Share awards

Details of share awards outstanding during the year are as follows

	2013	2012
Outstanding at the start of the year	16,698,893	9,867,630
Granted	2,746,884	12,341,866
Exercised	(171,087)	(2,859,857)
Lapsed	(5,500,856)	(2,650,746)
Outstanding at the end of year	13,773,834	16,698,893

The awards outstanding at the end of the year have a weighted average contractual life of 6.95 years (2012: 8.84 years). The cost of share awards is spread over the vesting period of two to three years.

Notes to the financial statements

8 Share-based payments (continued)

A summary of the vesting conditions of share awards is as follows

Performance share awards (market condition)

The performance condition for Performance shares issued before July 2011 is based on the outperformance of the theoretical growth in value of a shareholding in the Company (with dividends reinvested) for the three year performance period from grant (averaged over a 60-day period) compared to the growth in value of the FTSE 100 Index (with dividends reinvested) adjusted for mergers, demergers and de-listings over that period

Performance share awards (non market condition)

Performance shares issued after June 2011 will vest, subject to a vesting scale, if the annualised growth of the Group's return on opening equity during the three year performance period equals or exceeds 10% per annum

Performance-based awards

Performance-based share awards are made to certain investment executives. These plans operate in a similar format to a carry scheme where a percentage of shares will vest once a realised profit hurdle has been achieved on a defined group of assets

Deferred share bonus

Certain employees receive an element of their bonus as a conditional award of shares which vest after two or three years. The awards are not subject to a performance condition. The fair value of the deferred shares is the share price at the date of the award

Deferred share awards

Certain employees receive awards of deferred Shares which vest after two or three years subject to continued service for that period. These awards are not subject to a performance condition. The fair value of the deferred shares is the share price at the date of the award

Share incentive plan

Eligible UK employees may participate in a HM Revenue and Customs approved Share Incentive Plan intended to encourage employees to invest in the Company's shares. Accordingly it is not subject to a performance condition. During the year participants invested up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company grants two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than for certain permitted reasons) within three years of grant

Employee Trust

The Group has established the 3i Group Employee Trust which holds shares in 3i Group plc which can be used to meet its obligations under certain share schemes. The Trustee has full discretion as to the application of trust assets. However in accordance with IAS 27 Consolidated and Separate Financial Statements 3i Group plc is considered the ultimate controlling party for accounting purposes and the operations of the 3i Group Employee Trust are fully consolidated by the Group

9 Retirement benefits

Retirement benefit plans

(i) Defined contribution plans

The Group operates a number of defined contribution retirement benefit plans for qualifying employees throughout the Group. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state managed retirement benefit plan operated by the country's government. 3i Europe plc's French branch is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund these benefits

The total expense recognised in the statement of comprehensive income is £4 million (2012: £4 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date

(ii) Defined benefit schemes

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK (the Plan). The Plan has not been offered to new employees joining 3i since 1 April 2006. The Plan was closed to the future accrual of benefits by members with effect from 5 April 2011, although the final salary link will be maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. As the fund is now closed to future accrual, measures have been taken to de-risk the fund through changes to its investment policy

9 Retirement benefits (continued)

The last full actuarial valuation as at 30 June 2010 was updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2013

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows

	2013	2012
Discount rate	4.4%	4.6%
Expected rate of salary increases	5.8%	5.7%
Expected rate of pension increases	3.4%	3.4%
Retail Price Index (RPI) inflation	3.3%	3.2%
Consumer Price Index (CPI) inflation	2.6%	2.5%
Expected return on the Plan assets	n/a	4.6%

IAS 19 (Revised) will be implemented by 3i from 1 January 2013. The main effect will be that the expected returns on pension scheme assets will no longer be recognised in the income statement. Expected returns will be replaced by income calculated using the same discount rate as that used to measure the pension obligations.

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2013 is 80% of the PNA00 tables allowing for improvements from 2000 in line with the CMI 2009 core projections with a long-term annual rate of improvement of 1.5% (31 March 2012: 80% of the PNA00 tables allowing for improvements from 2000 in line with the CMI 2009 core projections with a long-term annual rate of future improvement of 1.5%). The life expectancy of a male member reaching age 60 in 2033 (2012: 2032) is projected to be 33.2 (2012: 33.1) years compared to 30.7 (2012: 30.6) years for someone reaching 60 in 2013.

The amount recognised in the statement of financial position in respect of the Group's defined benefit schemes are as follows

	2013 £m	2012 £m
Present value of funded obligations	720	693
Fair value of the Plan assets	(904)	(798)
Asset restriction	64	49
Retirement benefit surplus in respect of the Plan	(120)	(56)
Retirement benefit deficit in respect of other defined benefit schemes	14	10

The asset restriction relates to tax that would be deducted at source in respect of the Plan surplus together with the surplus that arises from the present value of supplementary contributions to the Plan agreed by the Plan trustees.

Amounts recognised in the statement of comprehensive income in respect of the Plan are as follows

	2013 £m	2012 £m
Included in operating costs		
Current/past service cost	–	2
Included in interest payable (note 10)		
Expected return on the Plan assets	(38)	(40)
Interest on obligation	31	32
Included in other comprehensive income		
Actuarial (gain)/loss	(35)	56
Asset restriction	15	10
Total actuarial (gain)/loss and asset restriction	(20)	66
Total	(27)	60

Changes in the present value of the defined benefit obligation were as follows

	2013 £m	2012 £m
Opening defined benefit obligation	693	587
Current/past service cost	–	2
Interest cost	31	32
Actuarial loss	33	90
Benefits paid	(37)	(18)
Closing defined benefit obligation	720	693

Notes to the financial statements

9 Retirement benefits (continued)

Changes in the fair value of the Plan assets were as follows

	2013 £m	2012 £m
Opening fair value of the Plan assets	798	670
Expected returns	38	40
Actuarial gain	68	34
Contributions	37	72
Benefits paid	(37)	(18)
Closing fair value of the Plan assets	904	798

Contributions paid to the Plan are related party transactions as defined by IAS 24 Related party transactions

The fair value of the Plan assets at the balance sheet date is as follows

	2013 £m	2012 £m
Equities	318	272
Corporate bonds	235	193
Gilts	341	332
Other	10	1
	904	798

The actual return on the Plan assets for the year was a gain of £106 million (2012 £74 million)

The Plan assets do not include any of the Group's own equity instruments nor any property in use by the Group. The expected rate of returns of individual categories of the Plan assets is determined by reference to individual indices.

The history of the Plan is as follows

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligation	720	693	587	593	437
Fair value of the Plan assets	(904)	(798)	(670)	(587)	(419)
Asset restriction	64	49	39	22	–
(Surplus)/deficit	(120)	(56)	(44)	28	18
Experience adjustments on the Plan liabilities	–	1%	(2)%	2%	2%
Experience adjustments on the Plan assets	8%	(4)%	–	16%	(26)%

The cumulative actuarial losses recognised in other comprehensive income are £147 million (2012 £168 million). This includes £64 million (2012 £49 million) in respect of the asset restriction.

As the Plan was closed to future accrual of benefits by members with effect from 5 April 2011 the Group ceased to make regular contributions to the Plan in the year to 31 March 2012. The triennial actuarial funding valuation as at 30 June 2010 was completed in September 2011. This resulted in an actuarial deficit of £130 million. The Group has paid contributions to the Plan to fund this deficit. Under an agreed schedule of contributions the Group paid contributions of £36 million (2012 £72 million) during the year included within operating expenses in the Group cash flow statement. In addition a contingent asset arrangement was entered into during the period, details of which are provided in note 31. No more additional contributions are due in relation to the funding of the deficit. The next triennial actuarial funding valuation exercise will commence shortly, based on the financial position as at 30 June 2013.

Other retirement schemes

Employees in Germany and Spain are entitled to a pension based on their length of service. 3i Deutschland GmbH and the German and Spanish branches of 3i Europe plc contribute to individual investment policies for their employees and have agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of these investment policies intended to cover pension liabilities is £3 million (2012 £4 million) and the future liability calculated by German and Spanish actuaries is £17 million (2012 £14 million). The Group has recognised cumulative actuarial losses of £3 million (2012 £1 million) and £1 million (2012 £1 million) in the statement of comprehensive income in respect of these schemes.

10 Net interest payable

	2013 £m	2012 £m
Interest receivable		
Interest on bank deposits	6	12
	6	12
Interest payable		
Interest on loans and borrowings	(103)	(109)
Interest on convertible bonds	–	(1)
Amortisation of convertible bonds	–	(1)
Net finance (expense)/income on pension plan	6	8
	(97)	(103)
Net interest payable	(91)	(91)

11 Movement in the fair value of derivatives

	2013 £m	2012 £m
Interest-rate swaps	(8)	(19)
Call options	–	(1)
Forward foreign exchange contracts	2	1
	(6)	(19)

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the statement of comprehensive income. During the year an £11 million loss (2012: £16 million gain) was recognised in exchange movements in relation to forward foreign exchange contracts.

12 Income taxes

	2013 £m	2012 £m
Current taxes		
Current year	(9)	(8)
Deferred taxes		
Deferred income taxes	3	2
Total income taxes in the statement of comprehensive income	(6)	(6)

Reconciliation of income taxes in the statement of comprehensive income

The tax charge for the year is different to the standard rate of corporation tax in the UK (currently 24% (2012: 26%)), and the differences are explained below.

	2013 £m	2012 £m
Profit before tax	189	(777)
Profit before tax multiplied by rate of corporation tax in the UK of 24% (2012: 26%)	(45)	202
Effects of		
Permanent differences	(9)	12
Short-term timing differences	–	(12)
Non-taxable dividend income	10	2
Foreign tax	(4)	(4)
Capital losses/profits	67	(206)
Excess tax losses arising in the period	(25)	–
Total income taxes in the statement of comprehensive income	(6)	(6)

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non-taxable.

Notes to the financial statements

12 Income taxes (continued)

Deferred income taxes

	2013 £m	2012 £m
Opening deferred income tax liability		
Tax losses	10	25
Income in accounts taxable in the future	(12)	(26)
Deferred tax recognised on acquisition	(4)	(5)
Other	2	–
	(4)	(6)
Recognised through statement of comprehensive income		
Tax losses utilised	–	(15)
Income in accounts taxable in the future	–	14
Amortisation of intangible asset	1	1
Other	2	2
	3	2
Closing deferred income tax liability		
Tax losses	10	10
Income in accounts taxable in the future	(12)	(12)
Deferred tax recognised on acquisition	(3)	(4)
Other	4	2
	(1)	(4)

At 31 March 2013 the Company had tax losses carried forward of £1 084 million (2012: £977 million). It is unlikely that the Group will generate sufficient taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 23% (2012: 24%).

13 Investment portfolio

	Group 2013 Equity investments £m	Group 2013 Loans and receivables £m	Group 2013 Total £m	Group 2012 Equity investments £m	Group 2012 Loans and receivables £m	Group 2012 Total £m
Non-current						
Opening book value	1,927	1,242	3,169	2,539	1,454	3,993
Additions	89	173	262	98	512	610
– Of which loan notes with nil value	–	(75)	(75)	–	(87)	(87)
Disposals, repayments and write-offs	(283)	(133)	(416)	(519)	(230)	(749)
Revaluation	225	–	225	(180)	–	(180)
Provisions and loan impairments	–	25	25	(64)	(253)	(317)
Other movements	39	18	57	53	(154)	(101)
Closing book value	1,997	1,250	3,247	1,927	1,242	3,169
Quoted	431	–	431	535	–	535
Unquoted	1,566	1,250	2,816	1,392	1,242	2,634
Closing book value	1,997	1,250	3,247	1,927	1,242	3,169

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Additions to loans and receivables includes £112 million (2012: £163 million) in interest received by way of loan notes, of which £75 million (2012: £87 million) has been written down in the year to nil. Included within the statement of comprehensive income is £54 million (2012: £95 million) of interest income, which reflects the net additions after write downs noted above and £14 million of cash income, non-capitalised accrued income and the capitalisation of prior year accrued income £3 million (2012: £19 million).

Other movements include foreign exchange and conversions from one instrument into another.

Included within the statement of comprehensive income are foreign exchange losses of £143 million (2012: £243 million loss). This includes exchange movements on non-monetary items (eg equity investment portfolio) and on monetary items (eg non-sterling loans and borrowings). Of this, foreign exchange losses on monetary items not measured at fair value total £35 million (2012: £83 million).

Palace Street I was launched in August 2011 and started trading loans on a regular basis. The investments within this fund are classified as current assets and held for trading and are included here as the Traded portfolio.

13 Investment portfolio (continued)

	Group 2013 Traded portfolio £m	Group 2012 Traded portfolio £m
Current		
Opening book value	35	–
Additions	171	78
Disposals repayments and write-offs	(157)	(42)
Revaluation	(1)	(1)
Other movements	–	–
Closing book value	48	35

Fair value hierarchy

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

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted) from active markets	Quoted equity instruments
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)	
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments and loan instruments included in the traded portfolio (Palace Street I)

Unquoted equity instruments and debt instruments included in the traded portfolio are measured in accordance with the International Private Equity and Venture Capital valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments can be found in the section Portfolio valuation – an explanation

The Group's investment portfolio for equity instruments and traded portfolio through Palace Street I are classified by the fair value hierarchy as follows

	Group 2013 Level 1 £m	Group 2013 Level 2 £m	Group 2013 Level 3 £m	Group 2013 Total £m	Group 2012 Level 1 £m	Group 2012 Level 2 £m	Group 2012 Level 3 £m	Group 2012 Total £m
Quoted equity	431	–	–	431	535	–	–	535
Unquoted equity	–	–	1,566	1,566	–	–	1,392	1,392
Traded portfolio	–	–	48	48	–	–	35	35
Total	431	–	1,614	2,045	535	–	1,427	1,962

	Company 2013 Level 1 £m	Company 2013 Level 2 £m	Company 2013 Level 3 £m	Company 2013 Total £m	Company 2012 Level 1 £m	Company 2012 Level 2 £m	Company 2012 Level 3 £m	Company 2012 Total £m
Quoted equity	243	–	–	243	392	–	–	392
Unquoted equity	–	–	798	798	–	–	299	299
Total	243	–	798	1,041	392	–	299	691

There were no transfers between Level 1, Level 2 or Level 3 during the year

This disclosure only relates to the investment portfolio. The fair value hierarchy also applies to derivative financial instruments, see note 20 for further details

Level 3 fair value reconciliation

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Opening book value	1,427	2,139	299	589
Additions	249	143	514	40
Disposals repayments and write-offs	(327)	(559)	(84)	(288)
Revaluation	214	(225)	55	(69)
Other movements	51	(71)	14	27
Closing book value	1,614	1,427	798	299

Unquoted equity investments valued using Level 3 inputs also had the following impact on the statement of comprehensive income, realised profits over value on disposal of investment of £179 million (2012: £40 million), dividend income of £23 million (2012: £29 million) and foreign exchange losses of £37 million (2012: £48 million)

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. A reasonable alternative assumption would be to apply a standard marketability discount of 5% for all assets rather than the specific approach adopted. This would have a positive impact on the unquoted equity portfolio of £125 million (2012: £100 million) or 8% (2012: 7%)

Notes to the financial statements

14 Interests in Group entities

	Company 2013 Equity investments £m	Company 2013 Loans and receivables £m	Company 2013 Total £m
Opening book value	51	2,273	2,324
Additions	285	272	557
Share of profits	–	374	374
Disposals and repayments	(49)	(2,165)	(2,214)
Impairment	(9)	771	762
Exchange movements	–	(122)	(122)
Closing book value	278	1,403	1,681

Details of significant Group entities are given in note 33

	Company 2012 Equity investments £m	Company 2012 Loans and receivables £m	Company 2012 Total £m
Opening book value	95	2,619	2,714
Additions	37	873	910
Share of profits	–	112	112
Disposals and repayments	(76)	(852)	(928)
Impairment	(5)	(377)	(382)
Exchange movements	–	(102)	(102)
Closing book value	51	2,273	2,324

15 Business combination

On the 28 September 2012 3i Debt Management US LLC, a newly formed entity (3i DM US) entered into a strategic transaction with WCAS Fraser Sullivan Investment Management ("FSIM") to set up a US debt management platform. At the time of the transaction FSIM, a specialist US debt management company, was managing US\$2.5 billion of AUM, comprising six CLO funds, one credit opportunity fund and one senior loan fund.

Following completion of the transaction, the fund management of the Senior Loan Fund and the Credit Opportunities Fund transferred across to 3i DM US. The senior loan fund was renamed 3i US Senior Loan Fund. FSIM continued to manage the existing CLO funds until investor approval was granted to change the fund manager to 3i DM US in March 2013. As part of the strategic transaction the FSIM team were initially employed by both FSIM and by 3i DM US; following the transfer of all FSIM funds to 3i DM US all employees are now employed solely by 3i DM US.

3i DM US has acquired certain of the assets and liabilities of FSIM. 3i DM US entered into a services agreement with FSIM which was classified as an intangible asset. Following the transfer of existing CLO fund management to 3i DM US in March 2013 this agreement has been replaced and 3i DM US will now directly manage the CLO funds.

This strategic transaction is judged to have key features of a business combination and accordingly has been classified as a business combination under IFRS3 Business Combinations. The Group subscribed for 80% of the equity of 3i DM US for cash consideration of £8 million. The management team of FSIM subscribed for the remaining 20% of the equity of 3i DM US. The Group has entered into agreements to purchase this remaining 20% from the management team by March 2016, with the price subject to the performance of 3i DM US.

The purchase of the management team's equity holding or "earn-out" is made up of two parts:

- £2 million deferred consideration, for the transfer of the remaining 20% of the shares held by FSIM management by March 2016. This has been recognised on acquisition and will be carried as a liability on the Group balance sheet.
- The remaining amount is contingent on the management team remaining in employment with 3i DM US and raising new funds. The amount will be determined by the performance of 3i DM US during the three year period and will be recognised in the statement of comprehensive income as carried interest and performance fees payable.

15 Business combination (continued)

The fair value of the identifiable assets and liabilities of FSIM as at the date of entering into the strategic transaction and the consideration paid were

	Fair value recognised £m
Fair value of assets received	
Intangible assets (fund management contracts and service agreement)	2
Total fair value of assets received	2
Fair value of liabilities assumed	
Creditors	(1)
Total fair value of liabilities assumed	(1)
Total identifiable net assets at fair value	1
Consideration	
Cash	8
Deferred consideration	2
Total consideration	10
Goodwill	9
Net cash outflow arising on acquisition	
Cash consideration paid	(8)
Cash and cash equivalents acquired	–
Net cash flow on acquisition	(8)

From the date of acquisition to 31 March 2013 3i DM US contributed £3 million to management fees and incurred operating expenses and amortisation of the fund management contracts of £2 million which resulted in an overall profit of £1 million to the net profit before tax of the Group

16 Intangible assets

	Group 2013 £m	Group 2012 £m
Fund management contracts		
Opening cost	22	22
Acquisitions	12	–
Closing cost	34	22
Opening accumulated amortisation	5	1
Charge for the year	6	4
Closing accumulated amortisation	11	5
Net book amount	23	17

The amortisation charge for the year of £6 million (2012 £4 million) has been recognised in operating expenses in the statement of comprehensive income

The acquisitions in the year relate to the purchase of five European CLO management contracts from Invesco Asset Management Limited acquired on 30 August 2012 and the fair value attributed to the management contracts acquired as part of the strategic transaction with Fraser Sullivan Investment Management LLC

	Group 2013 £m	Group 2012 £m
Goodwill		
Opening value	–	–
Acquisitions	9	–
Closing value	9	–

17 Property, plant and equipment

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Land and buildings				
Opening cost or valuation	4	5	4	4
Additions at cost	–	–	–	–
Disposals	(4)	(1)	(4)	–
Revaluation	–	–	–	–
Closing cost or valuation	–	4	–	4
Net book amount	–	4	–	4

Depreciation charged in the year on buildings was £nil (2012 £nil) following the sale of an administrative office property in Birmingham held by the company, in December 2012

Notes to the financial statements

17 Property, plant and equipment (continued)

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Plant and equipment				
Opening cost or valuation	33	32	–	–
Additions at cost	1	2	–	–
Disposals	(7)	(1)	–	–
Closing cost or valuation	27	33	–	–
Opening accumulated depreciation	24	22	–	–
Charge for the year	1	3	–	–
Disposals	(5)	(1)	–	–
Closing accumulated depreciation	20	24	–	–
Net book amount	7	9	–	–

The Group's freehold properties and long leasehold properties are revalued at each balance sheet date by professional valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom.

18 Other current assets

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Prepayments	4	6	–	–
Other debtors	81	96	15	24
Amounts due from subsidiaries	–	–	103	81
	85	102	118	105

19 Financial risk management

Introduction

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

The Group is a highly selective investor and each investment is subject to a risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section.

Capital structure

The capital structure of the Group consists of net debt, including cash held on deposit, long term borrowing and shareholders' equity. The type and maturity of the Group's borrowings are analysed further in note 21 and the Group's equity is analysed into its various components in the statement of changes in equity. Capital is managed with the objective of maximising long-term return to shareholders, whilst maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business.

	Group 2013 £m	Group 2012 £m
Cash, deposits and derivative financial assets	750	1,172
Borrowings and derivative financial liabilities ¹	(1,085)	(1,636)
Net debt	(335)	(464)
Total equity	2,934	2,627
Gearing (net debt/total equity)	11%	18%

¹ Includes £60 million of derivative financial liabilities.

Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints have been identified in the past and the Group has been able to distribute profits in a tax-efficient manner.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm that is regulated by the FSA (which has since changed to the Financial Conduct Authority). The last submission to the FSA demonstrated a significant consolidated capital surplus in excess of the FSA's prudential rules. The Group's capital requirement is updated annually following approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of 3i Investments plc. The Group complies with the Individual Capital Guidance as agreed with the FSA and remains at a significant regulatory capital surplus. The Group's Pillar 3 disclosure document can be found on www.3i.com.

19 Financial risk management (continued)

Financial risks

Concentration risk

The Group's exposure to and mitigation of concentration risk is explained within the investment and treasury and funding sections in the Risk section. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in note 1 segmental analysis.

Credit risk

The Group is subject to credit risk on its loans, traded portfolio, receivables, derivatives cash and deposits. The Group's cash and deposits are held with a variety of counterparties with circa 72% of the Group's surplus cash held on demand in AAA Liquidity funds. The balance is held on short-term deposit with 3i's relationship banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due it is believed that the risk of default is small and that capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the Group's investment. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Loan impairments are made when the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment. In these cases an appropriate loan impairment is recorded to reflect the valuation shortfall. Further information on how credit risk is managed is given in the Risk section. In accordance with IFRS 7, the amounts shown as past due represent the total credit exposure, not the amount actually past due.

Credit risk

	Group not past due £m	Group up to 12 months past due £m	Group more than 12 months past due £m	Group Total £m	Company not past due £m	Company up to 12 months past due £m	Company more than 12 months past due £m	Company Total £m
As at 31 March 2013								
Loans and receivables and Traded Portfolio before provisions and impairments	1,847	90	85	2,022	981	90	84	1,155
Provisions on investments that have failed or are expected to fail in the next 12 months	(99)	–	(22)	(121)	(44)	–	(22)	(66)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment	(537)	(7)	(59)	(603)	(379)	(7)	(58)	(444)
Total	1,211	83	4	1,298	558	83	4	645

	Group not past due £m	Group up to 12 months past due £m	Group more than 12 months past due £m	Group Total £m	Company not past due £m	Company up to 12 months past due £m	Company more than 12 months past due £m	Company Total £m
As at 31 March 2012								
Loans and receivables and Traded Portfolio before provisions and impairments	1,841	104	27	1,972	213	–	8	221
Provisions on investments that have failed or are expected to fail in the next 12 months	(142)	–	–	(142)	(34)	–	–	(34)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment	(436)	(90)	(27)	(553)	–	–	(8)	(8)
Total	1,263	14	–	1,277	179	–	–	179

The credit quality of the traded portfolio is based on the credit rating of the loans traded. Credit risk is carefully managed with the aim of generating profits from market opportunities. At 31 March 2013 the value of the traded portfolio was £48 million (2012: £35 million) and was invested in non-investment grade loans in the range BB to B- (2012: B+ to B-).

Notes to the financial statements

19 Financial risk management (continued)

Movements on loan impairment and provisions are shown below

	Group provisions £m	Group impairments £m	Group Total £m	Company provisions £m	Company impairments £m	Company Total £m
Balance as at 31 March 2011	(110)	(396)	(506)	(41)	(16)	(57)
Other movements	36	29	65	22	20	42
Charged to income statement in the year ¹	(68)	(186)	(254)	(15)	(12)	(27)
Balance as at 31 March 2012	(142)	(553)	(695)	(34)	(8)	(42)
Other movements	17	(70)	(53)	(38)	(493)	(531)
(Charged)/credited to income statement in the year	4	20	24	6	57	63
Balance as at 31 March 2013	(121)	(603)	(724)	(66)	(444)	(510)

¹ Included within impairments for the Group and Company is a £1 million value decrease in relation to the traded portfolio (2012: £1 million decrease)

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 gross contractual liabilities.

Financial liabilities (excluding forward foreign exchange contracts)

As at 31 March 2013	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross commitments										
Fixed loan notes	51	51	417	967	1,486	51	51	417	967	1,486
Committed multi-currency facility	167	2	2	–	171	2	2	2	–	6
Interest rate swaps	5	5	40	–	50	5	5	40	–	50
Carried interest payable within one year	29	–	–	–	29	–	–	–	–	–
Trade and other payables	192	–	–	–	192	193	–	–	–	193
Total	444	58	459	967	1,928	251	58	459	967	1,735

Forward foreign exchange contracts

As at 31 March 2013	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross amount receivable from forward foreign exchange contracts	319	152	–	–	471	325	153	–	–	478
Gross amount payable for forward foreign exchange contracts	(321)	(160)	–	–	(481)	(327)	(161)	–	–	(488)
Total amount payable	(2)	(8)	–	–	(10)	(2)	(8)	–	–	(10)

19 Financial risk management (continued)

Financial liabilities (excluding forward foreign exchange contracts)

As at 31 March 2012	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross commitments										
Fixed loan notes	53	54	456	1 080	1 643	53	54	456	1 080	1 643
Variable loan notes	249	262	–	–	511	249	262	–	–	511
Committed multi-currency facility	9	9	218	–	236	–	–	–	–	–
Interest rate swaps	5	5	13	26	49	5	5	13	26	49
Carried interest payable within one year	40	–	–	–	40	–	–	–	–	–
Trade and other payables	225	–	–	–	225	173	–	–	–	173
Total	581	330	687	1 106	2 704	480	321	469	1 106	2 376

Forward foreign exchange contracts

As at 31 March 2012	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross amount receivable from forward foreign exchange contracts	301	263	–	–	564	307	269	–	–	576
Gross amount payable for forward foreign exchange contracts	(293)	(256)	–	–	(549)	(299)	(262)	–	–	(561)
Total amount payable	8	7	–	–	15	8	7	–	–	15

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 and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

(i) Interest rate risk

Further information on how interest rate risk is managed is provided in the Risk section. The direct impact of a movement in interest rates is relatively small. An increase of 100 basis points, based on the closing balance sheet position over a 12 month period, would lead to an approximate increase in total comprehensive income of £21 million (2012: £21 million increase (restated)) for the Group and £22 million (2012: £21 million increase (restated)) for the Company. This increase arises principally from changes in interest receivable and payable on floating rate instruments, including cash, deposits and floating rate debt, and change in fair value of the interest rate swap. In addition the Group and Company have indirect exposure to interest rates through changes to the financial performance and valuation of portfolio companies caused by interest rate fluctuations.

Notes to the financial statements

19 Financial risk management (continued)

(ii) Currency risk

The Group's net assets in euro, US dollar, Swedish krona, Indian rupee, Chinese renminbi and all other currencies combined is shown in the table below. This sensitivity analysis is performed based on the sensitivity of the Group and Company's net assets to movements in foreign currency exchange rates assuming a 10% movement in exchange rates against sterling. The figures presented as at 31 March 2012 have been restated to reflect a change in the sensitivity assumption from 5% to 10% which provides a more appropriate assessment of the sensitivity given the market fluctuations in the year.

The Group manages currency risk on a consolidated basis. Further information on how currency risk is managed is provided in the Risk section.

As at 31 March 2013	Group sterling £m	Group euro £m	Group US dollar £m	Group Swedish krona £m	Group Indian rupee £m	Group Chinese renminbi £m	Group Other £m	Group Total £m
Net assets	870	871	863	14	78	62	176	2,934
Sensitivity analysis								
Assuming a 10% movement in exchange rates against sterling								
Impact on exchange movements in the statement of comprehensive income	n/a	19	69	35	–	–	15	138
Impact on the translation of foreign operations in other comprehensive income	n/a	43	(25)	(25)	7	5	–	5
Total	n/a	62	44	10	7	5	15	143

As at 31 March 2013	Company sterling £m	Company euro £m	Company US dollar £m	Company Swedish krona £m	Company Indian rupee £m	Company Chinese renminbi £m	Company Other £m	Company Total £m
Net assets	1,642	445	541	206	27	–	177	3,038
Sensitivity analysis								
Impact on exchange movements in the statement of comprehensive income assuming a 10% movement in exchange rates against sterling	n/a	10	34	25	2	–	18	89
Total	n/a	10	34	25	2	–	18	89

As at 31 March 2012	Group sterling £m	Group euro £m	Group US dollar £m	Group Swedish krona £m	Group Indian rupee £m	Group Chinese renminbi £m	Group Other £m	Group Total £m
Net assets	1,174	643	532	16	103	74	85	2,627
Sensitivity analysis								
Assuming a 10% movement in exchange rates against sterling								
Impact on exchange movements in the statement of comprehensive income	n/a	142	46	32	–	–	(16)	204
Impact on the translation of foreign operations in other comprehensive income	n/a	(102)	(26)	(22)	10	8	24	(108)
Total	n/a	40	20	10	10	8	8	96

19 Financial risk management (continued)

As at 31 March 2012	Company sterling £m	Company euro £m	Company US dollar £m	Company Swedish krona £m	Company Indian rupee £m	Company Chinese renminbi £m	Company Other £m	Company Total £m
Net assets	1 097	1 006	382	131	25	–	78	2 719
Sensitivity analysis								
Impact on exchange movements in the statement of comprehensive income assuming a 10% movement in exchange rates against sterling	n/a	40	12	22	2	–	10	86
Total	n/a	40	12	22	2	–	10	86

(iii) Price risk – market fluctuations

Further information about the management of price risk which arises principally from quoted and unquoted equity investments is provided in the Risk section. A 15% change in the fair value of those investments would have the following direct impact on the statement of comprehensive income:

	2013 Quoted equity £m	2013 Unquoted equity £m	2013 Traded portfolio £m	2013 Total £m	2012 Quoted equity £m	2012 Unquoted equity £m	2012 Traded portfolio £m	2012 Total £m
Group	65	235	7	307	80	209	5	294
Company	36	120	–	156	59	45	–	104

The figures presented as at 31 March 2012 have been updated to reflect a change in the sensitivity assumption from 5% to 15%, which provides a more appropriate assessment of the sensitivity given the market fluctuations in the year.

In addition, other price risk arises from carried interest balances.

20 Derivative financial instruments

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Non-current assets				
Forward foreign exchange contracts	–	6	–	6
	–	6	–	6
Current assets				
Forward foreign exchange contracts	4	7	4	7
	4	7	4	7
Non-current liabilities				
Forward foreign exchange contracts	(7)	(1)	(7)	(1)
Interest rate swaps	(48)	(40)	(48)	(40)
	(55)	(41)	(55)	(41)
Current liabilities				
Forward foreign exchange contracts	(5)	–	(5)	–
	(5)	–	(5)	–

Forward foreign exchange contracts

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments, as defined in IAS 39, and consequently all changes in fair value are taken to profit and loss.

The Group continues its use of derivatives to hedge exchange movements on its US dollar and euro portfolio during the year although the hedging policy has been reviewed and the use of derivatives will reduce during the course of the next financial year.

At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts was £481 million (2012: £549 million).

Notes to the financial statements

20 Derivative financial instruments (continued)

Interest rate swaps

The Group has one interest rate derivative. The fair value of this contract is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. This contract is not designated as a hedging instrument, as defined in IAS 39, and consequently all changes in fair value are taken to the statement of comprehensive income.

At the balance sheet date, the notional amount outstanding of the fixed rate to variable rate swap was £150 million.

The Group does not trade in derivatives. In general, derivatives held hedge specific exposures and have maturities designed to match the exposures they are hedging. It is the intention to hold both the financial instruments giving rise to the exposure and the derivative hedging them until maturity and therefore no net gain or loss is expected to be realised.

The derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. Movements in the fair value of derivatives are included in the statement of comprehensive income. In accordance with the fair value hierarchy described in note 13, derivative financial instruments are measured using Level 2 inputs.

21 Loans and borrowings

			Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Loans and borrowings are repayable as follows						
Within one year ¹			164	231	–	231
In the second year			–	250	–	250
In the third year			–	50	–	–
In the fourth year			280	–	280	–
In the fifth year			–	448	–	292
After five years			575	610	575	610
			1,019	1,589	855	1,383
Principal borrowings include						
	Rate	Maturity	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£400 million notes (public issue)	5.750%	2032	375	375	375	375
£350 million notes (public issue)	5.625%	2017	280	292	280	292
Other			–	35	–	35
Variable rate						
£500 million notes (public issue)	EURIBOR +0.200%	2012	–	231	–	231
Other			–	250	–	250
			855	1,383	855	1,383
Committed multi-currency facilities						
£200 million	LIBOR+3.75%	2014	–	50	–	–
£50 million	LIBOR+1.50%	2016	–	–	–	–
£450 million ¹	LIBOR+1.00%	2016	164	156	–	–
			164	206	–	–
Total loans and borrowings			1,019	1,589	855	1,383

¹ Repaid on 18 April 2013.

The £200 million multi-currency facility was cancelled in March 2013.

The Group is subject to a financial covenant on its committed multi-currency facilities, the Asset Cover Ratio defined as total assets (including cash) divided by loans and borrowings plus derivative financial liabilities. The Asset Cover Ratio limit is 1.45 at 31 March 2013 (2012: 1.45); the Asset Cover Ratio at 31 March 2013 is 4.00 (2012: 2.82).

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loans and borrowings is £1,087 million (2012: £1,581 million), determined where applicable with reference to their published market price.

22 Trade and other payables

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Other accruals	192	225	30	46
Amounts due to subsidiaries	–	–	163	127
	192	225	193	173

23 Provisions

	Group 2013 Property £m	Group 2013 Redundancy £m	Group 2013 Restructuring £m	Group 2013 Total £m
Opening balance	4	6	–	10
Charge for the year	3	19	8	30
Utilised in the year	–	(21)	(6)	(27)
Closing balance	7	4	2	13

	Group 2012 Property £m	Group 2012 Redundancy £m	Group 2012 Restructuring £m	Group 2012 Total £m
Opening balance	7	1	–	8
(Release)/charge for the year	(2)	11	–	9
Utilised in the year	(1)	(6)	–	(7)
Closing balance	4	6	–	10

The provision for redundancy relates to staff reductions announced prior to 31 March 2013. More detail on the Group restructuring is discussed in the Chief Executives statement on page 11. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease and have been provided for to the extent they are not covered by income from subleases. The leases covered by the provision have a remaining term of up to 13 years.

24 Issued capital

	2013 Number	2013 £m	2012 Number	2012 £m
Issued and fully paid				
Ordinary shares of 73 19/22p				
Opening balance	971,069,281	717	970,650,620	717
Issued under employee share plans	335,846	1	418,661	–
Closing balance	971,405,127	718	971,069,281	717

During the year to 31 March 2013, no options to subscribe for ordinary shares were exercised (2012: nil).

25 Equity

Capital redemption reserve

The capital redemption reserve is established in respect of the redemption of the Company's ordinary shares.

Share based payment reserve

The share based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

Translation reserve

The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations.

Capital reserve

The capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act, the Company amended its Articles of Association at the 2012 Annual General Meeting to allow these profits to be distributable by way of a dividend.

Revenue reserve

The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

Notes to the financial statements

26 Own shares

	2013 £m	2012 £m
Opening cost	105	86
Additions	–	31
Disposals	(1)	(12)
Closing cost	104	105

Own shares consists of shares in 3i Group plc held by the 3i Group Employee Trust. As at 31 March 2013 the Trust held 31,395,645 shares in 3i Group plc (2012: 32,968,465). The market value of these shares at 31 March 2013 was £103 million (2012: £71 million). The Trust is funded by an interest-free loan from 3i Group plc.

27 Per share information

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

As at 31 March	2013	2012
Earnings per share (pence)		
Basic	19.5	(82.8)
Diluted	19.4	(82.8)
Earnings (£m)		
Profit/(loss) for the year attributable to equity holders of the Company	183	(783)

As at 31 March	2013	2012
Weighted average number of shares in issue		
Ordinary shares	971,257,376	970,832,567
Own shares	(31,582,481)	(25,156,748)
	939,674,895	945,675,819
Effect of dilutive potential ordinary shares		
Share options and awards	3,253,409	2,245,376
Diluted shares	942,928,304	947,921,195

As at 31 March	2013	2012
Net assets per share (£)		
Basic	3.12	2.80
Diluted	3.11	2.79
Net assets (£m)		
Net assets attributable to equity holders of the Company	2,934	2,627

As at 31 March	2013	2012
Number of shares in issue		
Ordinary shares	971,405,127	971,069,281
Own shares	(31,395,645)	(32,968,465)
	940,009,482	938,100,816
Effect of dilutive potential ordinary shares		
Share options and awards	3,613,318	2,827,365
Diluted shares	943,622,800	940,928,181

28 Dividends

	2013 pence per share	2013 £m	2012 pence per share	2012 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	5.4	51	2.4	23
Interim dividend	2.7	25	2.7	26
	8.1	76	5.1	49
Proposed final dividend	5.4	51	5.4	51

29 Operating leases

Leases as lessee

Future minimum payments due under non-cancellable operating lease rentals are as follows

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Less than one year	7	9	–	–
Between one and five years	24	26	–	–
More than five years	21	27	–	–
	52	62	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2013 £11 million (2012: £10 million) was recognised as an expense in the statement of comprehensive income in respect of operating leases. Income recognised in the statement of comprehensive income in respect of subleases was £nil (2012: £nil). The total future sublease payments expected to be received under non-cancellable subleases is £7 million (2012: £3 million).

30 Commitments

	Group 2013 due within 1 year £m	Group 2013 due between 2 and 5 years £m	Group 2013 due over 5 years £m	Group 2013 Total £m	Group 2012 due within 1 year £m	Group 2012 due between 2 and 5 years £m	Group 2012 due over 5 years £m	Group 2012 Total £m
Equity and loan investments	6	12	–	18	38	13	–	51

	Company 2013 due within 1 year £m	Company 2013 due between 2 and 5 years £m	Company 2013 due over 5 years £m	Company 2013 Total £m	Company 2012 due within 1 year £m	Company 2012 due between 2 and 5 years £m	Company 2012 due over 5 years £m	Company 2012 Total £m
Equity and loan investments	5	8	–	13	38	8	–	46

For commitments to funds managed and advised by the Group refer to pages 31–36 and 42.

31 Contingent liabilities

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	4	37	4	10

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the committed multi-currency facilities. At 31 March 2013, 3i Holdings plc had drawn down £164 million (2012: £206 million) under these facilities. This has since been repaid by 3i Holdings plc in April 2013.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012 the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc as defined by the agreement) to a wholly-owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets at 31 March 2013 was £160 million (2012: £150 million).

3i Corporation, a 3i Group subsidiary, has provided an indemnification against an existing personal guarantee by the management of Fraser Sullivan Investment Management on the lease of a New York office taken over by 3i DM US LLC, a subsidiary of 3i Corporation. 3i Corporation is in the process of taking over this guarantee. The guarantee covers lost rental income the landlord would suffer if 3i DM US LLC reneged on its lease obligations.

The current lease runs to October 2014 and the maximum exposure that 3i Corporation could be exposed to is US\$900k.

At 31 March 2013, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

Notes to the financial statements

32 Related parties

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio its advisory arrangements and its key management personnel. In addition the Company has related parties in respect of its subsidiaries.

Limited partnerships

The Group manages a number of external funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Statement of comprehensive income				
Carried interest receivable	6	(24)	4	(24)
Fees receivable from external funds	25	41	–	–
Statement of financial position				
Carried interest receivable	10	27	9	27

Investments

The Group makes minority investments in the equity of unquoted and quoted investments. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Statement of comprehensive income				
Realised profit/(loss) over value on the disposal of investments	118	(4)	42	15
Unrealised profits/(losses) on the revaluation of investments	299	(370)	134	(57)
Portfolio income	82	122	44	37
Statement of financial position				
Quoted equity investments	398	480	239	377
Unquoted equity investments	1,087	853	584	169
Loans and receivables	1,159	1,141	591	121

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. These transactions are made on an arm's length basis.

Advisory arrangements

The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange. The following amounts have been included in respect of this advisory relationship:

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Statement of comprehensive income				
Unrealised profits on the revaluation of investments	24	22	15	22
Fees receivable from external funds	15	17	–	–
Carry receivable from external funds	1	–	1	–
Dividends	18	18	18	18

32 Related parties (continued)

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Statement of financial position				
Quoted equity investments	398	375	239	375

Key management personnel

The Group's key management personnel comprise the members of the Executive Committee which replaced the Leadership Team in July 2012 and the Board's non-executive Directors. The following amounts have been included in respect of these individuals

	Group 2013 £m	Group 2012 £m
Statement of comprehensive income		
Salaries, fees, supplements and benefits in kind	6	7
Bonuses and deferred share bonuses ¹	4	3
Increase in accrued pension	–	–
Carried interest and performance fees payable	5	6
Share based payments	2	3
Termination benefits ²	1	1

¹ For further detail, see Directors' remuneration report

² No termination benefits were paid to Executive Directors during the year

	Group 2013 £m	Group 2012 £m
Statement of financial position		
Bonuses and deferred share bonuses	7	4
Carried interest and performance fees payable within one year	2	4
Carried interest and performance fees payable after one year	11	11
Deferred consideration included within trade and other payables ¹	11	11

¹ Deferred consideration relates to the acquisition of Mizuho Investment Management Limited on 15 February 2011

Carried interest paid in the year to key management personnel was £6 million (2012: £6 million)

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below.

Management, administrative and secretarial arrangements

The Company has appointed 3i Investments plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £23 million (2012: £23 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £105 million (2012: £86 million) for this service.

Investment entities

The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent depending on the jurisdiction of the investment. The Company receives interest on this funding amounting in the year to 31 March 2013 to £nil (2012: £nil).

Other subsidiaries

The Company borrows funds from certain subsidiaries and pays interest on the outstanding balances. The amounts that are included in the Company's statement of comprehensive income are £nil (2012: £nil).

Notes to the financial statements

33 Group entities

Significant subsidiaries

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	England and Wales	1,000 000 ordinary shares of £1	Holding company	16 Palace Street London SW1E 5JD
3i International Holdings plc	England and Wales	2 715 973 ordinary shares of £10	Holding company	
3i plc	England and Wales	110 000 000 ordinary shares of £1	Services	
3i Debt Management Limited	England and Wales	1 000 000 ordinary shares of £1	Holding company	
3i Debt Management Investments Limited	England and Wales	12 000 000 ordinary shares of £1	Investment manager	
3i Investments plc	England and Wales	10 000 000 ordinary shares of £1	Investment manager	
3i Europe plc	England and Wales	500 000 ordinary shares of £1	Investment adviser	
3i Nordic plc	England and Wales	500 000 ordinary shares of £1	Investment adviser	
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee	
3i Corporation	USA	15 000 shares of common stock (no par value)	Investment manager	Suite 9C 401 Madison Avenue New York NY 10017
3i Debt Management US LLC	USA	100 shares of common stock (no par value)	Investment manager	
3i Deutschland Gesellschaft für Industriebeteiligungen GmbH	Germany	€25 564 594	Investment manager	Bockenheimer Landstrasse 2-4 60306 Frankfurt am Main Germany

The list above comprises the principal subsidiary undertakings as at 31 March 2013 all of which were wholly-owned, with the exception of 3i Debt Management Limited, which is 60% owned and is in turn the 100% owner of 3i Debt Management Investments Limited and 3i Debt Management US LLC which is 80% owned. The Group has entered into agreements to purchase the remaining 40% of the equity of 3i Debt Management Limited and 20% of 3i Debt Management US LLC, currently owned by management, over the next four years. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

Each of the above subsidiary undertakings is included in the consolidated accounts of the Group.

As at 31 March 2013, the entire issued share capital of 3i Holdings plc, 60% of the issued share capital of 3i Debt Management Limited was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings and 80% of 3i Debt Management US LLC listed above was held by subsidiary undertakings of the Company.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 4 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return.

Advantage has been taken of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 from the requirements to deliver to the Register of Companies and publish the accounts of those limited partnerships included in the consolidated accounts of the Group.

Independent auditor's report

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

We have audited the financial statements of 3i Group plc for the year ended 31 March 2013 which comprise the Statement of comprehensive income the Group and parent company Statement of changes in equity the Group and parent company Statement of financial position the Group and parent company Cash flow statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 67 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and parent company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and parent company's affairs as at 31 March 2013 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; 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 Directors' statement, set out on page 68, in relation to going concern
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to the shareholders by the Board on Directors' remuneration.

Andrew McIntyre (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 May 2013

Ernst & Young LLP

Portfolio and other information

Portfolio valuation – an explanation

Policy

The valuation policy is the responsibility of the Board, with additional oversight and annual review from the Valuations Committee. Our policy is to value 3i's investment portfolio at fair value and we achieve this by valuing investments on an appropriate basis applying a consistent approach across the portfolio. The policy ensures that the portfolio valuation is compliant with the fair value guidelines under IFRS and in so doing, is also compliant with the guidelines issued by the International Private Equity and Venture Capital valuation board (the IPEV guidelines). The policy covers the Group's Private Equity Infrastructure and Debt Management investment valuations.

Fair value is the underlying principle and is defined as 'the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date' (IPEV guidelines, December 2012). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

Private Equity valuation

Determining enterprise value

To arrive at the fair value of the Group's Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. This enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date.

The majority of the rest of our portfolio, however, is represented by unquoted investments. These are valued, in the vast majority of cases, with reference to market comparables, or to recent reported relevant transactions.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a marketability or liquidity discount. The marketability or liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing.

The table on the opposite page outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each.

Apportioning the enterprise value between 3i, other shareholders and lenders

Once we have estimated the enterprise value, the following steps are taken:

- 1 We subtract the value of any claims, net of free cash balances, that are more senior to the most senior of our investments.
- 2 The resulting attributable enterprise value is apportioned to the Group's investment and equal ranking investments by other parties according to contractual terms and conditions to arrive at a fair value of the entirety of the investment. The value is then distributed amongst the different loan, equity and other financial instruments accordingly.
- 3 If the value attributed to a specific shareholder loan investment in a company is less than its par or nominal value, a shortfall is implied, which is recognised in our valuation. In exceptional cases, we may judge that the shortfall is temporary to recognise the shortfall in such a scenario would lead to unrepresentative volatility and hence we may choose not to recognise the shortfall.

Other factors

In applying this framework, there are additional considerations that are factored into the valuation of some assets.

Impacts from structuring

Structural rights are instruments convertible into equity or cash at specific points in time or linked to specific events. For example, where a majority shareholder chooses to sell, and we have a minority interest, we may have the right to a minimum return on our investment.

Debt instruments, in particular, may have structural rights. In the valuation, it is assumed third parties, such as lenders or holders of convertible instruments, fully exercise any rights they might have if they are 'in the money', and that the value to the Group may therefore be reduced by such rights held by third parties. The Group's own rights are valued on the basis they are exercisable on the reporting date.

Assets classified as "terminal"

If we believe an investment has more than a 50% probability of failing in the 12 months following the valuation date, we value the investment on the basis of its expected recoverable amount in the event of failure. It is important to distinguish between our investment failing and the business failing: the failure of our investment does not always mean that the business has failed, just that our recoverable value has dropped significantly. This would generally result in the equity and loan components of our investment being valued at nil. Value movements in the period relating to investments classified as terminal are classified as provisions in our value movement analysis.

Infrastructure valuation

The primary valuation methodology used for infrastructure investments is the discounted cash flow method (DCF). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector.

Debt Management valuation

The Group's Debt Management business line typically invests in traded debt instruments and the subordinated notes that it is required to hold in the debt funds which it manages. The traded debt instruments and the subordinated notes are valued using an average of broker quotes available, reflecting the best available market observable data.

Where broker quotes are unavailable or deemed unreliable for subordinated notes, in the absence of an orderly market or where transactions take place in a market where the motivations of buyers and sellers is not fully transparent, then the fair value of the instrument is determined with reference to the performance of the underlying portfolio of the fund, typically with reference to the original arranging bank's models.

Methodology	Description	Inputs	Adjustments	% of portfolio valued on this basis
Earnings (Private Equity)	Most commonly used Private Equity valuation methodology Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions where relevant with similar characteristics	Earnings multiples are applied to the earnings of the company to determine the enterprise value Earnings Reported earnings adjusted for non-recurring items such as restructuring expenses for significant corporate actions and in exceptional cases run-rate adjustments to arrive at maintainable earnings Most common measure is earnings before interest tax depreciation and amortisation (EBITDA) Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings Earnings multiples The earnings multiple is derived from comparable listed companies or relevant market transaction multiples We select companies in the same industry and where possible with a similar business model and profile in terms of size products services and customers growth rates and geographic focus We adjust for changes in the relative performance in the set of comparables	A marketability or liquidity discount is applied to the enterprise value typically between 5% and 15% using factors such as our alignment with management and other investors and our investment rights in the deal structure	67%
Quoted (Infrastructure/ Private Equity)	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	13%
Imminent sale (Infrastructure/ Private Equity)	Used where an asset is in a sales process, a price has been agreed but the transaction has not yet settled	Contracted proceeds for the transaction or best estimate of the expected proceeds	A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds	2%
Fund (Infrastructure/ Private Equity/ Debt Management)	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	1%
Specific industry metrics (Private Equity)	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters or regulated asset bases for utilities	We create a set of comparable listed companies and derive the implied values of the relevant metric We track and adjust this metric for relative performance as in the case of earnings multiples Comparable companies are selected using the same criteria as described for the earnings methodology	An appropriate discount is applied depending on the valuation metric used	5%
Discounted Cash Flow (Infrastructure/ Private Equity)	Appropriate for businesses with long-term stable cash flows typically in infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data where possible or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	7%
Broker quotes (Debt Management/ Infrastructure)	Used to value traded debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned	No discount is applied	2%
Other (Private Equity)	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to the separate elements as above	3%

For a small proportion of our smaller investments (less than 1% of the portfolio value), the valuation is determined by a more mechanical approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are measured using amortised cost and any implied impairment, in line with IFRS.

Consistent with IPEV guidelines all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

Fifty large investments

The list below provides information on 50 of our largest investments in respect of the Group's holding, excluding any managed or advised external funds. These do not include seven investments that have been excluded for commercial reasons.

Investment	Description of business	Business line
3i Infrastructure plc	Quoted investment company investing in infrastructure	Infrastructure
Action	Non-food discount retailer	Private Equity
ACR	Pan-Asian non-life reinsurance	Private Equity
Element Materials Technology	Testing and inspection	Private Equity
Foster + Partners ¹	Architectural services	Private Equity
Hilite International	Fluid control component supplier	Private Equity
Quintiles	Clinical research outsourcing solutions	Private Equity
Mayborn	Manufacturer and distributor of baby products	Private Equity
Mémora	Funeral service provider	Private Equity
Civica	Public sector IT and services	Private Equity
AES Engineering	Manufacturer of mechanical seals and support systems	Private Equity
Elitel Networks	Infrastructure services for electricity and telecoms networks	Private Equity
Tato ²	Manufacture and sale of speciality chemicals	Private Equity
Amor	Distributor and retailer of affordable jewellery	Private Equity
Phibro Animal Health Corporation	Animal healthcare	Private Equity
Trescal	Calibration services	Private Equity
Palace Street I	Debt management (Credit Opportunities Fund)	Debt Management
Hobbs	Retailer of women's clothing and footwear	Private Equity
OneMed Group	Distributor of consumable medical products, devices and technology	Private Equity
Hyperion Insurance Group	Specialist insurance intermediary	Private Equity
Geka	Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity
Lekolar	Distributor of pedagogical products and educational materials	Private Equity
Etanco	Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity
LHI Technology	Medical cable assemblies	Private Equity
Krishnapatnam Port	India port	Infrastructure
Inspecta	Supplier of Testing, Inspection and Certification (TIC) services	Private Equity
Blue Interactive	Cable TV and broadband provider	Private Equity
BVG India	Business services	Private Equity
Refresco	Manufacturer of private label juices and soft drinks	Private Equity
Azelis	Distributor of speciality chemicals, polymers and related services	Private Equity
TouchTunes Interactive Networks	Out of home interactive media and entertainment network	Private Equity
Navayuga	Engineering and construction	Private Equity
Polyconcept	Supplier of promotional products	Private Equity
Agent Provocateur	Women's lingerie and associated products	Private Equity
SLR Management	Specialist environmental consultancy	Private Equity
MKM Building Supplies	Builders' merchant	Private Equity
Loxam	Professional equipment rental	Private Equity
Consultim Finance	Wholesaler of rental real estate	Private Equity
John Hardy	Designer jewellery business	Private Equity
Soya Concept	Fashion design company	Private Equity
UFO Moviez	Provider of digital cinema services	Private Equity
KMC Roads	Road BOT project construction	Infrastructure
Adani Power	Power generation	Infrastructure
Environmental Scientifics Group (ESG)	Testing, inspection and compliance	Private Equity
GVK Energy	Power generation	Infrastructure
Joyon Southside	Real estate	Private Equity
Óticas Carol	Designer sunglasses business	Private Equity
Indiareit Offshore Fund	Indian real estate fund	Private Equity
Gain Capital	Retail online forex trading	Private Equity
GO Outdoors	Retailer of outdoor equipment, tents, clothing and footwear	Private Equity

¹ The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at investment.

² Previously disclosed as non-core.

³ Managed in the UK, but has investments in Europe, North America and the UK.

Geography	First invested in	Valuation basis	Proportion of equity shares held %	Residual cost March 2012 £m	Residual cost March 2013 £m	Valuation March 2012 £m	Valuation March 2013 £m
UK	2007	Quoted	34.1%	302	302	375	398
Benelux	2011	Earnings	21.1%	115	107	143	280
Singapore	2006	Industry metric	23.9%	105	105	118	121
Benelux	2010	Earnings	42.8%	63	70	90	112
UK	2007	Other	40.0%			112	108
Germany	2011	Earnings	25.4%	99	54	115	107
North America	2008	Earnings	4.9%	74	74	86	103
UK	2006	Earnings	44.7%	103	87	105	97
Spain	2008	Earnings	34.7%	116	128	74	90
UK	2008	Earnings	40.2%	92	93	68	84
46% of total portfolio				1,069	1,049	1,286	1,500
UK	1996	Earnings	39.5%	30	30	63	79
Finland	2007	Earnings	42.6%	85	87	68	74
UK	1989	Earnings	26.1%	2	2	59	63
Germany	2010	Earnings	42.1%	46	49	55	57
North America	2009	Earnings	29.9%	89	89	41	57
France	2010	Earnings	23.5%	31	35	38	51
UK ²	2011	Broker quotes	100.0%	36	50	35	48
UK	2004	Earnings	47.0%	74	79	49	47
Sweden	2011	Earnings	30.5%	93	113	46	47
UK	2008	Imminent sale	19.1%	21	21	34	43
63% of total portfolio				1,576	1,604	1,774	2,066
Germany	2012	Earnings	45.7%	n/a	57	n/a	39
Sweden	2007	Earnings	33.3%	30	33	36	36
France	2011	Earnings	30.3%	72	74	67	34
China	2008	Earnings	37.5%	16	16	30	32
India	2009	DCF	3.0%	24	24	31	32
Finland	2007	Earnings	39.2%	51	63	13	31
Brazil	2012	Industry metric	44.0%	n/a	29	n/a	29
India	2011	Earnings	19.6%	21	21	25	27
Benelux	2010	Earnings	10.7%	46	46	17	27
Benelux	2007	Earnings	47.5%	51	66	56	27
North America	2011	Earnings	9.4%	18	18	22	27
India	2006	DCF/Earnings	10.0%	23	23	61	26
Benelux	2005	Earnings	13.0%	43	48	29	24
UK	2007	Earnings	34.5%	49	49	13	24
UK	2008	Earnings	25.9%	23	23	23	23
UK	1998	Earnings	30.3%	15	16	21	23
France	2011	Earnings	4.9%	21	21	23	21
France	2007	Earnings	20.0%	24	12	20	20
China	2007	Earnings	23.5%	15	15	9	20
Denmark	2007	Earnings	45.0%	13	13	23	20
India	2007	Earnings	27.6%	11	11	14	19
India	2011	DCF	6.9%	15	15	16	17
India	2007	Quoted	1.6%	26	26	28	17
UK	2007	Earnings	38.0%	32	40	21	16
India	2010	DCF	2.8%	23	23	22	15
China	2007	DCF	49.9%	8	8	20	15
Brazil	2013	Earnings	39.0%	n/a	14	n/a	14
India	2006	Fund	20.0%	13	13	12	12
North America	2008	Quoted	14.0%	24	23	13	12
UK	2011	Earnings	16.5%	17	17	13	12
84% of total portfolio				2,299	2,460	2,452	2,757

Information for shareholders

Financial calendar

Ex-dividend date	19 June 2013
Record date	21 June 2013
Annual General Meeting*	18 July 2013
Final dividend to be paid	26 July 2013
Half-year results (available online only)	November 2013
Interim dividend expected to be paid	January 2014

* The 2013 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre Broad Sanctuary Westminster London SW1P 3EE on 18 July 2013 at 11 00am. For further details please see the Notice of Annual General Meeting 2013

Information on ordinary shares

Shareholder profile Location of investors at 31 March 2013

UK	76.9%
North America	12.9%
Continental Europe	7.5%
Other international	2.7%

Share price

Share price at 31 March 2013	316.0p
High during the year (18 March 2013)	324.6p
Low during the year (24 May 2012)	168.8p

Dividends paid in the year to 31 March 2013

2011/2012 Final dividend paid 20 July 2012	5.4p
2012/2013 Interim dividend paid 9 January 2013	2.7p

Balance analysis summary

	Number of holdings Individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2013	%
1 – 1 000	15 510	601	7 540 020	0.78
1 001 – 10 000	5 911	1 115	16 847 417	1.73
10 001 – 100 000	194	399	18 583 797	1.91
100 001 – 1 000 000	23	279	104 634 179	10.77
1 000 001 – 10 000 000	0	117	329 288 913	33.90
10 000 001 – highest	0	20	494 510 801	50.91
Total	21,638	2,531	971,405,127	100.00

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2013

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas based brokers who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company. These approaches are operated out of what is more commonly known as a 'boiler room'. You may also be approached by brokers offering to purchase your shares for an upfront payment in the form of a broker fee, tax payment or de-restriction fee. This is a common secondary scam operated by the boiler rooms.

If you receive any unsolicited investment advice

- always ensure the firm is on the Financial Conduct Authority (FCA) Register and is allowed to give financial advice before handing over your money. You can check at www.fca.org.uk/register,
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. This is important as there have been instances where an authorised firm's website has been cloned but with a few subtle changes, such as a different phone number or false email address,
- check the FCA's list of known unauthorised overseas firms. However, these firms change their name regularly, so even if a firm is not listed it does not mean they are legitimate. Always check that they are listed on the FCA Register,
- if you have any doubts call the Financial Conduct Authority Consumer Helpline on 0800 111 6768. If you deal with an unauthorised firm you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Annual and reports and Half-yearly reports online

If you would prefer to receive shareholder communications electronically in future including annual reports and notices of meetings, please visit our Registrars website at www.shareview.co.uk/clients/3isignup and follow the instructions there to register

The 2013 half-yearly report will be available online only
Please register to ensure you are notified when it becomes available

More general information on electronic communications is available on our website at
www.3i.com/investor-relations/shareholder-information

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc including requests for further copies of the Report and accounts please contact

Investor relations
3i Group plc
16 Palace Street
London SW1E 5JD
Telephone +44 (0)20 7975 3131
email IRTeam@3i.com

or visit the Investor relations section of our website at
www.3i.com/investor-relations for full up-to-date investor relations information, including the latest share price results presentations and financial news

Registrars

For shareholder administration enquiries including changes of address please contact

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone 0871 384 2031

Calls to this number are charged at 8p per minute from a BT landline, other telephony provider costs may vary. Lines are open from 8.30am to 5.30pm, Monday to Friday
(International callers +44 121 415 7183)

3i Group plc

Registered office
16 Palace Street,
London SW1E 5JD, UK

Registered in England No 1142830

An investment company as defined by section 833 of the Companies Act 2006

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3i Group plc

16 Palace Street, London SW1E 5JD, UK
Telephone +44 (0)20 7975 3131

M727913 May 2013

Register online

To receive shareholder communications electronically, including annual reports and notices of meetings, please register at **www.3i.com/investor-relations/shareholder-information**

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3i Osprey LP

**Annual report and accounts
for the year to 31 March 2013**



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COMPANIES HOUSE

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Manager's report

3i Osprey LP ("the Partnership") was established on 14 February 2007. The Manager submits its report together with the financial statements of the Partnership for the year to 31 March 2013. The Partnership's ultimate parent is 3i Infrastructure plc. 3i Infrastructure plc and its subsidiaries are considered to be "the Group".

Manager

The General Partner of the Partnership is 3i Osprey GP Limited which has delegated the responsibility for the administration of the Partnership to 3i Investments plc ("the Manager").

3i Investments plc has responsibility for the operations of the Partnership and for managing the investment portfolio on behalf of the limited partners.

Activities and future prospects

The principal activity of the Partnership is to invest exclusively in Anglian Water Group ("AWG") Limited and to carry on the business of an investor in Anglian Water Group Limited.

There have been no changes in activity in the year and the Manager does not foresee any future changes.

The Manager does not consider that the Partnership carries on substantially different classes of business and no segmental information has been presented.

Business review

The total comprehensive income for the year amounted to £50,366,569 (2012: £46,481,244). This comprises amounts attributable to the Partners for the year of £19,428,364 (2012: £26,692,387) which has been allocated to the Partners' profit accounts and an unrealised profit on the revaluation of investments of £30,938,205 (2012: £19,788,857).

A summary of movements in investments is given in note 3 to the financial statements.

Principal risks and uncertainties

A description of the principal financial risks and uncertainties facing the Partnership and the Partnership's financial risk management policies are set out in note 11 to the accounts. From the perspective of the Partnership, the principal operational risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. The principal risks and uncertainties of the Group, which include those of the Partnership, are set out in the consolidated financial statements of 3i Infrastructure plc.

Manager's report (cont'd)

Key performance indicators

The Directors of 3i Infrastructure plc manage the operations of the Group on a consolidated basis. The Manager believes that an analysis of the Partnership's results using key performance indicators is neither relevant nor appropriate to the management of the business. The development, performance and position of the Group, which includes the Partnership is discussed in the financial statements of 3i Infrastructure plc. The net asset value movement of the Partnership is monitored by the Manager on a quarterly basis.

Taxation

As a limited partnership, the taxation payable on profits is the liability of the partners and accordingly no charge for taxation appears in the financial statements.

Partners' interests

A summary of movements in Partners' accounts is given in note 6 to the financial statements.

Statement of Manager's responsibilities

The Manager is responsible for preparing the financial statements in accordance with applicable law and regulations and the Partnership Agreement of the Partnership.

The Companies Act 2006, as applied by the Partnerships (Accounts) Regulations 2008, requires the Manager to prepare financial statements for each financial year. Under that law the Manager has elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

Under the Companies Act 2006, as applied by the Partnerships (Accounts) Regulations 2008, the Manager must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Partnership and of the total profit or loss of the Partnership for that period.

In preparing these financial statements, the Manager is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The Manager is responsible for keeping adequate accounting records that are sufficient to show and explain the Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Partnership and enable the Manager to ensure that the financial statements comply with the Companies Act 2006, as applied by the Partnerships (Accounts) Regulations 2008. The Manager is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Manager's report (cont'd)

Going concern

The Manager has assessed the net asset position of the Partnership and has concluded that it has sufficient liquid resources to meet its liabilities for the foreseeable future. The Partnership is exposed to limited external liabilities. For this reason, it continues to adopt the going concern basis for preparing the financial statements.

Audit information

Pursuant to s418(2) of the Companies Act 2006, each of the Directors of the Manager confirms that: (a) so far as they are aware, there is no relevant audit information of which the auditor is unaware, and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of such information.

Auditor

Ernst & Young LLP will remain in office as the auditor of the Partnership.

For and on behalf of 3i Investments plc



Authorised signatory

Date 28/06/2013

Registered Office
16 Palace Street
London SW1E 5JD

Independent auditor's report to the members of 3i Osprey LP

We have audited the financial statements of 3i Osprey LP ("the Partnership") for the year ended 31 March 2013, which comprise the statement of comprehensive income, the statement of changes in partners' accounts, the balance sheet, the cash flow statement, the accounting policies A to J and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Partnership, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the members of the Partnership 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 Partnership, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Manager and the auditor

As explained more fully in the Statement of Manager's Responsibilities set out on page 3, the Manager is 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 the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the qualifying partnership's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Manager and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Manager's Report and the other information contained in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Partnership's affairs as at 31 March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 as applied to qualifying partnerships by The Partnerships (Accounts) Regulations 2008

Independent auditor's report to the members of 3i Osprey LP

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to qualifying partnerships requires us to report to you if, in our opinion,

- adequate accounting records have not been kept, or 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

Ernst & Young LLP

Geraint Davies (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

Date *28 June 2013*

Statement of comprehensive income

for the year to 31 March

	Notes	2013 £	2012 £
Portfolio income	1	22,586,062	29,567,764
Administrative expenses	2	(3,162,326)	(2,878,864)
Other interest receivable		4,628	3,487
Amount available for allocation among Partners		19,428,364	26,692,387
Unrealised gain on the revaluation of the investment	3	30,938,205	19,788,857
Profit for the year		50,366,569	46,481,244
Total comprehensive income for the year		50,366,569	46,481,244

All items in the above statement are derived from continuing operations

Statement of changes in Partners' accounts

for the year to 31 March

		2013 £	2012 £
Opening balance of Partners' accounts	6	234,779,577	234,780,943
Distributions to Partners	6	(19,530,132)	(26,693,753)
Total comprehensive income for the year		50,366,569	46,481,244
Transfer to unrealised reserve	7	(30,938,205)	(19,788,857)
Closing balance of Partners' accounts	6	234,677,809	234,779,577

The accounting policies on pages 10 to 11 and the notes on pages 12 to 17 form an integral part of these financial statements

Balance sheet

as at 31 March

	Notes	2013 £	2012 £
Assets			
Non-current assets			
Investments held at fair value through profit or loss	3	267,279,056	236,340,851
Loans and receivables	3	69,300,149	69,300,149
		336,579,205	305,641,000
Current assets			
Trade and other receivables	4	1,671,050	1,690,038
Cash and cash equivalents		84,190	98,299
		1,755,240	1,788,337
Total assets		338,334,445	307,429,337
Liabilities			
Current liabilities			
Trade and other payables	5	825,188	756,517
Net assets		337,509,257	306,672,820
Represented by:			
Loans and other debts due within one year			
Partners' capital classified as a liability	6	97,153,914	178,687,827
Equity			
Partners' capital classified as equity	6	252	252
Profit account	6	137,523,643	56,091,498
Total Partners' funds		234,677,809	234,779,577
Unrealised reserve	7	102,831,448	71,893,243
		337,509,257	306,672,820

The accounting policies on pages 10 to 11 and the notes on pages 12 to 17 form an integral part of these financial statements

For and on behalf of 3i Investments plc

S. Halliwell

Authorised signatory

Date 28 / 06

2013

Cash flow statement

for the year to 31 March

	Notes	2013 £	2012 £
Cash flow from operating activities			
Total comprehensive income for the year		50,366,569	46,481,244
Adjustments for			
Unrealised gain on the revaluation of investment		(30,938,205)	(19,788,857)
Decrease/(increase) in receivables		18,988	(21,688)
Increase in payables		68,671	10,662
Net cash flow from operating activities		19,516,023	26,681,361
Cash flow from financing activities			
Distributions to Partners	6	(19,530,132)	(26,693,753)
Net cash flow from financing activities		(19,530,132)	(26,693,753)
Net cash outflow in the year		(14,109)	(12,392)
Cash and cash equivalents at the start of the year		98,299	110,691
Cash and cash equivalents at the end of the year		84,190	98,299

The accounting policies on pages 10 to 11 and the notes on pages 12 to 17 form an integral part of these financial statements

Accounting policies

A 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 been prepared in accordance with and in compliance with the requirements of the Limited Partnership Agreement of the Partnership and with the requirements of the Companies Act 2006 as applied by the Partnerships (Accounts) Regulations 2008

The IASB has issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates

		Effective for period beginning on or after
IAS 1	Presentation of Items of Other Comprehensive Income – Amendments to IAS 1	1 July 2013
IAS 19	Employee Benefits (revised)	1 July 2013
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)	1 July 2014
IAS 32	Amendments to Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 1	Government Loans – Amendments to IFRS 1	1 January 2013
IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7	1 January 2013
IFRS 9	Financial Instruments Classification and Measurement	1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2014
IAS 27	Amendment to Separate Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping costs in the production phase of a surface mine	1 January 2013

The Manager does not anticipate that the adoption of these standards, interpretations and amendments will have a material impact on the financial statements in the period of initial application and has therefore decided not to adopt these amendments early

B Basis of preparation The financial statements are presented in sterling, the functional currency of the Partnership. The majority of the Partnership's business operations are conducted in sterling

The preparation of financial statements in conformity with IFRS requires the Manager to make judgments, estimates and assumptions that affect the application of accounting policies and the 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 value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Areas where assumptions are significant to the financial statements include:

- (i) Valuation of the investment portfolio - The investment in Anglian Water Group Limited is 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
- (ii) Assessment for impairment - The Manager must make certain estimates regarding the recoverability of loans and receivables when assessing whether these financial assets meet the criteria for impairment against the current carrying value
- (iii) Treatment of capital - The Manager has made a significant judgement on the treatment of Partners' capital as debt and equity as set out in section E

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

Accounting policies

C Investments Investments are recognised and derecognised on the date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. Investments are managed with a view to profiting from the receipt of interest and dividends and changes in the fair value of equity investments. Equity investments are designated at fair value through profit and 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.

Fair value is measured using the International Private Equity and Venture Capital guidelines. Discounted Cash Flow ("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 appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate will be estimated for each investment derived from the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector.

Other investments, including loan investments and fixed income shares, are classified as loans and receivables and subsequently carried in the balance sheet at amortised cost less impairment.

D Revenue recognition Revenue is analysed into the following components:

- (i) Realised gains on the disposal of investments is the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its fair value. Realised profits are recognised in the statement of comprehensive income.
- (ii) Unrealised gains on the revaluation of investments is the movement in carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement. Unrealised gains are recognised in the statement of comprehensive income and have been allocated to an unrealised reserve that is separate from Partners' capital.
- (iii) Portfolio income is recognised to the extent that it is probable that there will be economic benefit arising from the investment and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:
 - Income from loans and other receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable.
 - Dividends from equity investments are recognised when the shareholders' rights to receive payment have been established except to the extent that dividends, paid out of pre-acquisition reserves, adjust the fair value of the equity investment.

E Classification of capital Under the terms of the Partnership Agreement of the Partnership, capital is contributed to the Partnership by the Members in the form of both capital and loan contributions. The loan contributions are classified as a liability in the financial statements on the basis that the repayment of the loan contributions rank in priority to the repayment of the capital contributions upon a return of capital by the Partnership. All capital distributions made by the Partnership will reduce the loan contribution balance until such time as the loan contribution has been fully repaid by the Partnership. Following the repayment of the loan contributions, all surplus capital profits are recognised as a capital gain arising from the capital contribution.

F Administrative expenses All reasonable costs incurred in relation to the administration of the Partnership are charged to the statement of comprehensive income on an accruals basis.

G Loan to General Partners The General Partner is entitled to a priority profit share calculated as a fixed proportion of the value of the Partnership's net assets in accordance with the Limited Partnership Agreement. The obligation of the Partnership to settle the priority profit share ranks in advance of the allocation of any profits to the other partners of the Partnership. To the extent that the Partnership generates insufficient realised profits in any financial year from which to settle the General Partner's profit share, payment is made to the General Partner in the form of an interest free loan that can only be settled through the allocation of future income generated by the Partnership. As a result, the priority profit share is considered to be an obligation of the Partnership and is therefore treated as an expense of the Partnership (and included in administrative expenses) rather than treated as an allocation made from Partners' capital.

H Cash and cash equivalents Cash and cash equivalents in the balance sheet comprise cash at bank and in hand with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash as defined above.

I Other receivables 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 are considered approximate to their fair value. All assets are reviewed at each balance sheet date to determine whether there is an 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 the 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 an impairment been recognised.

J Other payables Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which the Manager considers to be payable in respect of services received up to the balance sheet date. The carrying value of other payables is considered to be approximate to their fair value.

Notes to the financial statements

1 Portfolio income

	Year to 31 March 2013	Year to 31 March 2012
	£	£
Dividend income	15,675,034	22,635,049
Interest income	6,911,028	6,932,715
	22,586,062	29,567,764

All income is derived from the Partnership's investment that is domiciled in the United Kingdom and from the Partnership's principal activity

2 Administrative expenses

	Year to 31 March 2013	Year to 31 March 2012
	£	£
Administrative expenses are stated after charging		
Auditor's remuneration	4,333	5,000

The auditor's remuneration of £4,333 (2012 £5,000) was paid by 3i Infrastructure plc, the ultimate parent undertaking of the Partnership and was re-charged to the Partnership. The Partnership did not incur any non-audit fees (2012 £nil) in respect of services provided by the Partnership's auditor.

Administrative expenses include a priority profit share payable to the General Partner of £3,157,111 (2012 £2,876,105). This balance is calculated at a rate of 0.25% of the net assets of the Partnership and is payable on a quarterly basis in arrears.

3 Investments

The Partnership holds a 15% stake in Anglian Water Group Limited, a company domiciled in the United Kingdom.

	Unquoted equity £	Loans and receivables £	Total £
At 1 April 2012	236,340,851	69,300,149	305,641,000
Unrealised gains on revaluation of investment	30,938,205	-	30,938,205
At 31 March 2013	267,279,056	69,300,149	336,579,205
	Unquoted equity £	Loans and receivables £	Total £
At 1 April 2011	216,551,994	69,300,149	285,852,143
Unrealised gains on revaluation of investment	19,788,857	-	19,788,857
At 31 March 2012	236,340,851	69,300,149	305,641,000

Notes to the financial statements

3 Investments (cont'd)

Fair value hierarchy

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

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

Unquoted equity instruments are measured in accordance with the International Private Equity and Venture Capital Valuation guidelines with reference to the most appropriate information available at the time of measurement

The Partnership's equity investment portfolio is classified by the fair value hierarchy as the following

	As at 31 March 2013			
	Level 1 £	Level 2 £	Level 3 £	Total £
Unquoted equity	-	-	267,279,056	267,279,056
Total	-	-	267,279,056	267,279,056

	As at 31 March 2012			
	Level 1 £	Level 2 £	Level 3 £	Total £
Unquoted equity	-	-	236,340,851	236,340,851
Total	-	-	236,340,851	236,340,851

Level 3 fair value reconciliation

	£
Opening book value	236,340,851
Revaluation	30,938,205
Closing book value	267,279,056

Level 3 fair value reconciliation

	£
Opening book value	216,551,994
Revaluation	19,788,857
Closing book value	236,340,851

There have been no reclassifications for assets that have been transferred in or out of Level 3 during the year (2012 £nil)

The asset held within Level 3 is valued on a discounted cash flow basis, hence the valuation is sensitive to the discount rate assumed in the valuation of the asset. Increasing the discount rate used in the valuation of the asset by 1% would reduce the value of the asset by £32.0 million. Decreasing the discount rate used in the valuation of the asset by 1% would increase the value of the asset by £38.0 million.

Notes to the financial statements

4 Trade and other receivables	31 March 2013 £	31 March 2012 £
Accrued income	1,670,798	1,689,786
Amounts due from limited partners	252	252
	1,671,050	1,690,038

None of the above amounts are considered to be past due or impaired (2012 none)

5 Trade and other payables	31 March 2013 £	31 March 2012 £
Amounts owed to the General Partner	820,855	738,660
Amounts owed to related undertakings	4,333	17,857
	825,188	756,517

6 Partners' accounts

	Capital contributions £	Loans £	Profits £	Total £
Total Partners' funds at 1 April 2012	252	178,687,827	56,091,498	234,779,577
Amount available for allocation among partners	-	-	19,428,364	19,428,364
Distributions	-	(19,530,132)	-	(19,530,132)
Transfers	-	(62,003,781)	62,003,781	-
Total Partners' funds at 31 March 2013	252	97,153,914	137,523,643	234,677,809

The transfer relates to an adjustment to reflect distributions applied to the profit account in prior years that are being transferred to the loan account until the loan account has been fully repaid in line with the terms of the Limited Partnership Agreement.

	Capital contributions £	Loans £	Profits £	Total £
Total Partners' funds at 1 April 2011	252	178,687,827	56,092,864	234,780,943
Amount available for allocation among partners	-	-	26,692,387	26,692,387
Distributions	-	-	(26,693,753)	(26,693,753)
Total Partners' funds at 31 March 2012	252	178,687,827	56,091,498	234,779,577

Notes to the financial statements

7 Unrealised reserve

	Unrealised reserve £
Balance as at 1 April 2012	71,893,243
Unrealised gain on investment	30,938,205
Balance as at 31 March 2013	102,831,448
Balance as at 1 April 2011	52,104,386
Unrealised gain on investment	19,788,857
Balance as at 31 March 2012	71,893,243

8 Income taxes

No provision for taxation has been made as the Partnership is not a taxable entity. Any taxation arising on the income and gains of the Partnership is payable by the individual partners.

9 Related parties

During the year, the Partnership entered into transactions, in the ordinary course of business, with certain related parties. Each of these categories of related parties and their impact on the financial statements is detailed below. The Partnership has no key management personnel.

Limited Partners

Transactions with Limited Partners in the form of allocations of profit and drawdowns and distributions of cash, including balances at the year end, are detailed in note 6. Amounts outstanding at the year end are shown in note 4.

General Partner

The Partnership pays a Priority Profit Share to its General Partner. The Priority Profit Share entitlement for the year was £3,157,111 (2012: £2,876,105). To the extent that there is insufficient income to allocate against the General Partners' drawings, the balance takes the form of an interest free loan.

The balance payable to the General Partner in respect of the Priority Profit Share at the end of the year was £820,855 (2012: £738,660).

Ultimate Parent Undertaking

The total amount owed to the ultimate parent undertaking, 3i Infrastructure plc at the end of year, in respect of administrative expenses paid on behalf of the Company was £4,333 (2012: £5,000).

10 Controlling party

In addition to being a limited partner in the Partnership, 3i Infrastructure plc is considered to be the ultimate controlling party. Copies of the consolidated 3i Infrastructure plc ("the Group") financial statements which include the results of the Partnership are available from Lime Grove House, St Helier, Jersey JE1 2ST.

Notes to the financial statements

11 Financial risk management

The Partnership is a subsidiary of 3i Infrastructure plc. The Group sets objectives, policies and processes for managing and monitoring operational risk as set out in the Risk section in the 3i Infrastructure plc annual report. This note provides further information on the specific financial risks faced by the Partnership.

Concentration risk

Concentration risk is managed at the Group level as discussed in the Risk section in the 3i Infrastructure plc annual report. The Partnership is exposed to risk based on its sole investment in Anglian Water Group (AWG) Limited.

Capital structure

The capital structure of the Partnership consists of equity and loan commitments made by limited partners in accordance with the Limited Partnership Agreement dated 14th February 2007. The Manager believes that the Partnership has sufficient capital to cover its liabilities. The Partnership is free to return realised surplus profits to the partners in accordance with the Limited Partnership Agreement. No restrictions exist in respect of the distribution of surplus realised profits. Profits are allocated to each partner in proportion to their profit entitlements in accordance with the Limited Partnership Agreement.

Credit risk

The Partnership is subject to credit risk on its loans and receivables, cash, deposits and outstanding loan commitments.

The Manager does not believe that there is significant credit risk as amounts owed by the Partnership's debtors are due from other Group entities and repayable on demand, or from investee companies for which the performance and ability to meet obligations are closely monitored. The Partnership's maximum exposure to credit risk is the value of the debt investment and receivables balance as disclosed in notes 3 and 4 and its cash balance. Through the year, the Partnership'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 Partnership is also exposed to credit risk in relation to outstanding loan commitments from its limited partners. Loan commitments are made under the Limited Partnership Agreement signed by all parties so that all members of the Partnership are aware of their commitments. The Manager communicates regularly with all the members of the Partnership to make them aware of likely future capital requirements and provide explanations for investment performance.

Liquidity risk

Liquidity risk is managed at the Group level as discussed in the Risk section in the 3i Infrastructure plc annual report. The current liabilities are repayable on demand for the consideration shown in note 5.

Market risk

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

(i) Interest rate risk

The Partnership is not exposed to interest rate risk as the rate on the loan held with AWG Limited is fixed. The interest earned on the cash balance is not deemed to be significant.

(ii) Currency risk

There is no currency risk as all balances are held in pound sterling.

Notes to the financial statements

11 Financial risk management (cont'd)

(iii) Market price risk

The Partnership is exposed to market price risk in relation to the fair value of its direct investment in AWG Limited. Volatility in the market value of this investment is considered to be limited due to the predictable nature of the cash flows that are received from the underlying investment. A 10% (2012: 10%) increase or decrease in the fair value of the equity investment would have the impact of increasing or decreasing net assets and net profit by £26.7m (2012: £23.6m).

12 Contingent liabilities

At 31 March 2013, there was no material litigation or other contingent liabilities outstanding against the Partnership (2012: £nil). There are no outstanding investment commitments owed by the Partnership.