3i Group plc
Annual report and accounts 2012

Further content online

reportingcentre.3igroup.com/2012

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Further information online

Information about

- private equity
- infrastructure
- debt management

/otherindustry

3i and transparency

A full report on 3i and transparency.

/transparency

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Directors' report

Pages 2 to 80 comprise the Directors' report and pages 81 to 90 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.

Disclaimer

This Annual report and accounts may contain certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i"). 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.

Contents

Overview

An overview of our business and performance for the year to 31 March 2012.

Transparency

For over 65 years, 3i's objective has been to take an open and straightforward approach to doing business.

3i is fully compliant with the Walker Guidelines on transparency and disclosure in private equity. The full report on 3i and transparency can be found in the Reporting centre.

For more information, go to:
/transparency

We are an international investor focused on private equity, infrastructure and debt management, investing in Europe, Asia and the Americas.

Financial data

	Year to/as at 31 March 2012	Year to/as at 31 March 2011
Returns		
Gross portfolio return	**£(329)m**	£601m
Gross portfolio return on opening portfolio value	**(8.2)%**	17.1%
Net portfolio return	**£(425)m**	£449m
Net portfolio return on opening portfolio value	**(10.6)%**	12.8%
Total return	**£(656)m**	£324m
Total return on opening shareholders' funds	**(19.5)%**	10.6%
Dividend per ordinary share	**8.1p**	3.6p
Operating expenses as a percentage of assets under management[1]	**1.5%**	1.8%
Assets under management ("AUM")		
3i	**£4,174m**	£5,450m
External funds	**£6,319m**	£7,236m
Total assets under management	**£10,493m**	£12,686m
Balance sheet		
3i portfolio value	**£3,204m**	£3,993m
Gross debt	**£1,623m**	£2,043m
Net debt	**£464m**	£522m
Liquidity	**£1,653m**	£1,846m
Net asset value	**£2,627m**	£3,357m
Diluted net asset value per ordinary share	**£2.79**	£3.51
Investment activity		
Investment	**£646m**	£719m
Realisations	**£771m**	£609m

1 Weighted average assets under management.

Chairman's statement

"A clear and concrete set of measures to maximise shareholder value."

In my first statement to you last year, I said that our strategy would be to retain our financial strength, to continue to take a measured and highly selective approach to investment and to keep an absolute focus on improving every aspect of our business. It has undoubtedly been a challenging year for 3i but we have stuck firmly to this agenda.

We have retained our financial strength, realised more than we have invested and made a number of improvements to 3i, especially in our Private Equity business line. We have also, following a rigorous process that considered a strong field of both external and internal candidates, announced the appointment of a new Chief Executive, Simon Borrows.

Simon will succeed Michael Queen, who in March this year, after almost 25 years at 3i and three as Chief Executive, announced his intention to leave the Company. Michael has given tremendous service to 3i. His leadership through the period of the global financial crisis in restoring 3i's financial strength, his founding of our highly successful Infrastructure business, his actions to reduce costs and the strong management team he has put in place are just some of his many achievements.

Currently Chief Investment Officer, Simon has been a member of the Group Board since he joined 3i in October 2011. Prior to that, he was Chairman of Greenhill & Co. International LLP, having previously been Co-Chief Executive Officer of Greenhill & Co. Inc., a leading independent investment bank listed on the New York Stock Exchange. Before founding the European operations of Greenhill & Co. in 1998, he was the Managing Director of Baring Brothers International Limited. He is also a non-executive director of The British Land Company plc and of Inchcape plc.

Simon has already made a significant positive impact as Chief Investment Officer, bringing a fresh focus and discipline to 3i's investment processes and to our approach to asset management.

His immediate priorities as Chief Executive will be to pursue a clear and concrete set of measures that he and the Board have agreed to maximise shareholder value. These will include determining the best shape and investment strategy for the business going forward and ensuring that the operating costs of the Group are consistent with this. A key component of this will be improving the focus and discipline around the Group's asset management approach and investment capabilities, to the benefit of the Group's shareholders and co-investors. He will continue to chair 3i's Investment Committee.

In our pre-close briefing statement in March, we said that we expected a more positive economic outlook to result in a stronger overall performance from our Private Equity portfolio, although the effect of this improvement in sentiment was unlikely to have an impact upon our results for the financial year to 31 March 2012. It is clear that uncertainties over the environment remain, especially with respect to the Eurozone. It is early days but the performance of our recent Private Equity vintages is more encouraging, as can be seen from the additional disclosure that we have provided on the portfolio this year.

At the time of our half-yearly results in November 2011, the Board declared an interim dividend of 2.7p and announced its intention to significantly increase the total dividend for the year to 8.1p, 125% higher than the previous year. The Board is therefore recommending a final dividend of 5.4p, subject to the approval of shareholders at the AGM. In addition, the Board has decided to further strengthen its distribution policy in order to give shareholders a direct share in the success of the Group's realisation activities by adopting a policy of returning a share of gross cash realisations.

The Board therefore intends to distribute to shareholders, whilst gearing remains less than 20%, further amounts such that the aggregate level of distribution by the Company, including the dividend, represents at least 15% and up to 20% of gross cash realisations. Incremental distributions will be either through special dividends, the use of the standing share buy-back authority, or by way of other capital distribution methods.

The Board expects to implement this new policy progressively in the light of the performance of the business, progress in implementing the Chief Executive's strategic mandate and the strength of the Group's cash flow. In the next 12 months it regards the reduction of gross debt to £1 billion as a priority. In view of the uncertainty generated by the difficult conditions in the banking and M&A markets in Europe, the projected flow of realisations in the current financial year is expected to be lower than those in 2011/12.

The Board will inform shareholders on the progress that it is making towards this new distribution policy, as well as in reducing gross debt on a half-yearly basis.

We were pleased to welcome Martine Verluyten to the Board during the year. Martine, who is based in Brussels, joined the Board as a non-executive Director in January 2012. She was formerly the Chief Financial Officer of Umicore and brings a wide range of international and financial experience.

In summary, this has been a challenging year for 3i and the stability of the Eurozone remains central to the outlook. Whatever the environment, I and the Board believe that we have a clear set of measures to maximise shareholder value and returns for the co-investors in our funds.

Sir Adrian Montague
Chairman
16 May 2012

For more information, go to:
Governance p65

Highlights from the year

International growth: driving realisation success

The three largest realisations in the year, MWM, Hyva and Ålö, grew the proportion of their international sales during the time that 3i was invested. They delivered an aggregate of 4.2x their original investment, an average IRR of 32% and created £412 million of value for 3i and £173 million for investors in the relevant private equity funds.

Private Equity portfolio performance: growth in challenging times

The 10 highest performing Private Equity portfolio companies increased their sales and earnings by an average of 25% and 27% respectively in the year to December 2011. Based in Europe, Asia and North America, these businesses operate across a broad range of sectors. What they all have in common is international growth, operational effectiveness and a strong focus on delivering excellent products and services. The combined value increase in these companies in the year was £166 million.

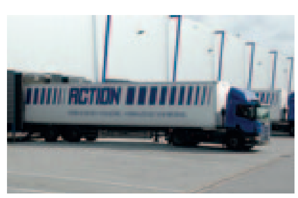
Action and Hilite: demonstrating 3i's market access

Two new investments typify the strength of 3i's market access. 3i's deep sector and local relationships, combined with its track record of growing businesses internationally, provided the access to these investments with high growth potential.

Action, in which Eurofund V invested €229 million, is a €700 million revenue Dutch-based non-food discount retailer with 275 stores, aiming to expand its presence from the Benelux and Germany to other countries.

Hilite, a business in which Eurofund V invested €190 million, is a €370 million revenue automotive components business at the cutting edge of fuel efficiency and emissions controls technology. Being well positioned to benefit from these global trends, international growth will be key to Hilite's success.

€235m
invested by 3i



For more information, go to:
Strategy and performance p16 and p17
Key Group financial performance measures p17

Brazil: access to a rapidly growing market for 3i and its portfolio

In April 2011, 3i appointed Marcelo Di Lorenzo to lead a team of experienced private equity investors, based in São Paulo, to build a business in this rapidly growing region. With the support of a strong local advisory board, the team also provides 3i's portfolio in other countries with increased knowledge of, and access to the Brazilian market. 20% of 3i's existing portfolio has sales or operations in Latin America.

In December 2011, 3i announced its first investment in Brazil, a $55 million investment in Blue Interactive Group. Blue is the largest independent cable TV and broadband provider in Brazil and the investment will be used to expand Blue's footprint from the 14 cities it currently operates in.

Building on our success in Debt Management

3i first established a debt management capability in 2007 and, in 2011, following the acquisition of MIM from Mizuho, formed a distinct Debt Management business line.

During the year we launched the Credit Opportunities Fund, Palace Street I and closed our second private equity fund of funds, Vintage II. This, combined with the improvement in performance of the funds acquired, has resulted in a business generating fees of £32 million and with assets under management of £3,358 million.

LNI: a powerful combination of infrastructure expertise and Nordic knowledge

3i and 3i Infrastructure plc invested £28 million and £195 million respectively in January 2012 in a €1.5 billion transaction to form LNI through the acquisition of two businesses from Vattenfall AB.

LNI now comprises the second-largest electricity distribution network in Finland, as well as a broad-based local district heating network. This further diversifies the Infrastructure portfolio geographically.

Improved investment and portfolio management processes

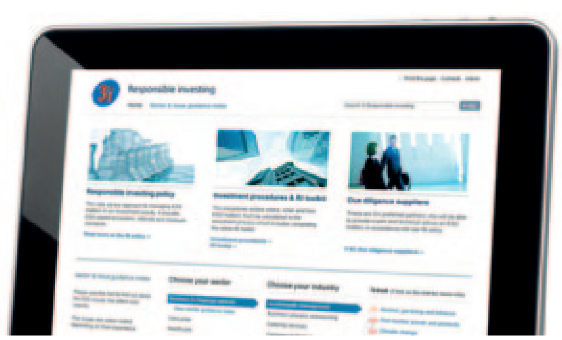
The restructuring of our Private Equity business in Europe and the appointment of Simon Borrows as Chief Investment Officer ("CIO") reinforced the changes being made to improve investment quality.

Net operating expenses: more than halved since 2008

A further £23 million reduction in annual net operating expenses brings the total reduction in annual net operating expenses to £126 million since 2008. This 58% decrease was achieved as the business has been funding growth in several key areas, most notably in Infrastructure and Debt Management, growing its Private Equity business in developing markets, as well as developing its approach to responsible investing.

Responsible Investing: a key element of the 3i brand

We have invested in new Responsible Investing ("RI") systems and processes, linked these to a series of values workshops for our staff and placed even greater emphasis on Environmental, Social and Governance ("ESG") issues in our investment and portfolio processes.



Our business

3i is an international investor focused on private equity, infrastructure and debt management, investing in Europe, Asia and the Americas.

Private Equity

Investing in mid-market companies across Europe, Asia and the Americas.

90 portfolio companies

79% of 3i portfolio value in 2012
50% of total AUM in 2012

For more on Private Equity, please go to:
Private Equity p30

Investment funding model

Investments have historically been made through a series of Limited Partnership funds focused on either majority or minority situations. These include the €5 billion European buyout fund, Eurofund V, and the €1.2 billion Growth Capital Fund.

Following the combination of our Buyouts and Growth Capital investment businesses in 2010, it is anticipated that new fundraising will be regionally focused.

Infrastructure

Investing primarily in utilities, transportation and social infrastructure in Europe and in India.

11 3i portfolio companies

16% of 3i portfolio value in 2012
17% of total AUM in 2012

For more on Infrastructure, please go to:
Infrastructure p40

Investment funding model

Investments are currently made through 3i Infrastructure plc (“3iN”), a listed vehicle in which the Group has a 34% shareholding, and the 3i India Infrastructure Fund (“India Fund”), a $1.2 billion Limited Partner fund to which 3i has a $250 million commitment.

Debt Management

Debt Management specialises in the management of third-party funds investing in non-investment grade debt issued by medium and large European companies.

1% of 3i portfolio value in 2012
32% of total AUM in 2012

For more on Debt Management, please go to:
Debt Management p44

Investment funding model

Investments are made through 10 funds, of which 7 remain open to new investment.

Across these funds, 3i holds a direct interest of 1% of AUM.

Group

An international investor and a listed company, investing in private equity, infrastructure and debt management in Europe, Asia and the Americas.

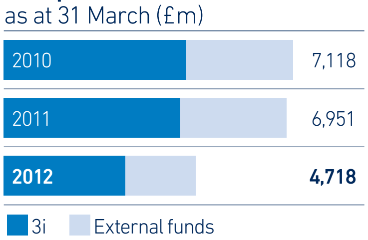
AUM: 40% 3i balance sheet, 60% external investors

Investment funding model

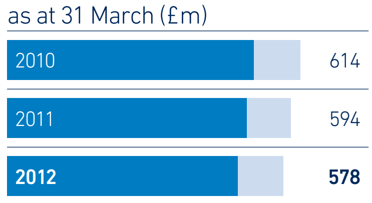
Investments are made using capital from our own balance sheet and external funds. Total AUM are £10.5 billion.

Assets under management

Europe and North America
as at 31 March (£m)



Asia and South America
as at 31 March (£m)

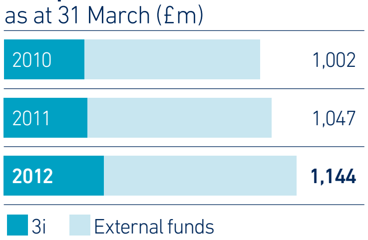


Risk

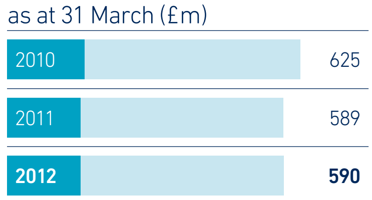
- assessment of investment opportunities;
- selection of appropriate financial structures and negotiation of terms;
- ability to implement value creation plans;
- ability to negotiate successful exits; and
- the wider macroeconomic environment and its impact on portfolio performance.

Assets under management

Europe
as at 31 March (£m)



India
as at 31 March (£m)

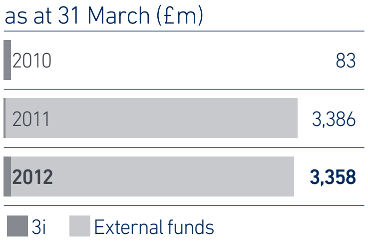


Risk

- assessment of investment opportunities;
- selection of the appropriate financial structures and negotiation of terms;
- changes in the political and regulatory environment;
- ability to implement value creation plans; and, where relevant,
- opportunities to negotiate successful exits.

Assets under management

as at 31 March (£m)

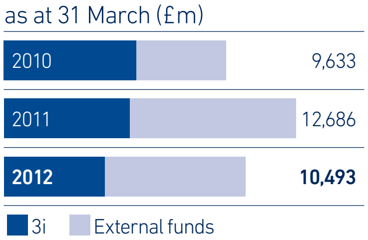


Risk

- fundamental credit assessment of the underlying assets in each fund;
- management of income and costs during the life of each fund; and
- the ability to raise further funds.

Assets under management

as at 31 March (£m)



Risk

- market and economic conditions;
- portfolio performance;
- investment and portfolio management capabilities;
- balancing investment and realisations requirements; and
- retention of key staff.

Strategy, Business model and KPIs

A description of our strategy and business model, including our model for generating returns.

Detail on how we are performing against our strategy and on our key performance measures.

Chief Executive's review

"We have used our strengthened balance sheet to take advantage of opportunities to create value for shareholders for the long term."

My last review for you as Chief Executive provides the opportunity to give you my perspective on the transformation of the business over the last three years, as well as on the performance and development of the business over the last year.

When I was appointed as CEO in January 2009, the Company faced a significant crisis requiring extensive management action. The causes of this crisis have been well chronicled but, in summary, were a combination of over investment in highly priced and highly leveraged private equity assets bought at the top of the cycle, combined with a balance sheet which was insufficiently strong for the testing conditions at that time. Less visible was the need for major cultural change and a significant reduction in operating costs. Extensive management action was required.

So three years on, where have we got to, and how should this year's performance be seen in the context of the change programme overall?

In terms of financial position, the objectives were to restore balance sheet strength, to reduce leverage, both in terms of the Group itself and the underlying portfolio and to build much stronger liquidity. We end the year to 31 March 2012 with net debt of £464 million, gross debt of £1.6 billion and liquidity of £1.7 billion. The corresponding numbers for March 2009 were £1.9 billion, £2.1 billion and £734 million. Alongside the reduction in debt at a Group level, we have also made good progress in reducing the leverage in the Private Equity buyouts portfolio in particular, with the average debt to EBITDA ratio on a value weighted basis now down to 4.2x (2009: 5.3x).

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Chief Executive's review

"Further significant improvements in investment quality."

We have also made good progress in improving cost efficiency. Net operating expenses fell a further £23 million in the year to 31 March 2012, to £91 million, just half of those in the year to 31 March 2009. This, combined with the growth of our Infrastructure and Debt Management businesses, which now represent 49% of our assets under management, has further increased our resilience.

In terms of cultural change, our Private Equity business has been completely restructured with a much greater emphasis on performance, on values, on responsible investing and on teamwork. The appointment of Simon Borrows as Chief Investment Officer, combined with the changes that we have made throughout the investment and portfolio management process, have led to further significant improvements in investment quality. The investments made since the rights issue in 2009 grew earnings by 17% on a value weighted basis, versus 9% for the portfolio overall.

At a time of considerable restructuring, we have also been ambitious and used our strengthened balance sheet to take advantage of opportunities to create value for shareholders for the long term. The launch of our Debt Management business, and the recruitment of a strong team in Brazil, are both good examples of this.

The year to 31 March 2012 was another challenging one for the business, but it was also one in which the benefits of this transformation are becoming more evident. The combination of successful realisations, more encouraging earnings performance from the portfolio, and the performance of high potential new investments such as Action and Hilite, are all evidence of the strengthening of our Private Equity business.

Our Infrastructure business continued to develop well and to build its portfolio. The investment in LNI, the second largest electricity distribution network in Finland, is of particular note. Our Debt Management business received a further boost with the launch of the Credit Opportunities Fund, Palace Street I.

It wasn't all good news. The strong overall performance from more recent Private Equity vintages was offset by a continued drag on returns from pre-credit crisis investments. Their impact on future returns is likely to diminish. The value of our largest Asian asset, reinsurance business ACR, was also impacted by natural disasters.

These factors, together with the impact of economic uncertainty on both the multiples used to value the portfolio, as well as the earnings used for valuations, adverse movements on currency and pensions, meant that our total return for the year was £(656) million. This was a disappointing result in the light of the progress that we have made and our potential for the future.

I have been incredibly fortunate to spend a large part of my career at 3i, latterly as CEO. I believe that 3i is a wonderful company that genuinely makes a difference to the companies in which we invest – stimulating investment, job creation and wealth – all desperately needed in the global economy. I am confident that our performance over the next few years will show the real benefits of the changes that I have been responsible for over the last three years.

However, I took the view at the end of March that frustration with our short-term performance was likely to become personalised. I didn't want to risk 3i's good name and prospects being tarnished by unhelpful agitation so therefore came to the conclusion that a change of leadership would be the most effective way to create the time and space to help the business achieve its full potential.

Since the announcement at the end of March of my intention to step down, I have been focused on ensuring that the momentum of the business has continued to improve. I am delighted that the Board has appointed Simon Borrows as Chief Executive, who is well placed to lead 3i in the next phase of its development.

3i has gone through a very difficult turnaround over the last few years and is now emerging with much improved prospects for the future, with a stronger financial position and a higher quality and more focused investment business. I would like to thank the Board and 3i's staff for their tremendous support and wish them every success.

Michael Queen
Chief Executive
16 May 2012

Business model

This section sets out our business model and the way in which we generate returns at a Group and business line level.

Our business model takes into account the distinctive characteristics of the Private Equity, Infrastructure and Debt Management businesses, as well as the different ways in which they draw upon Group resources to deliver returns.

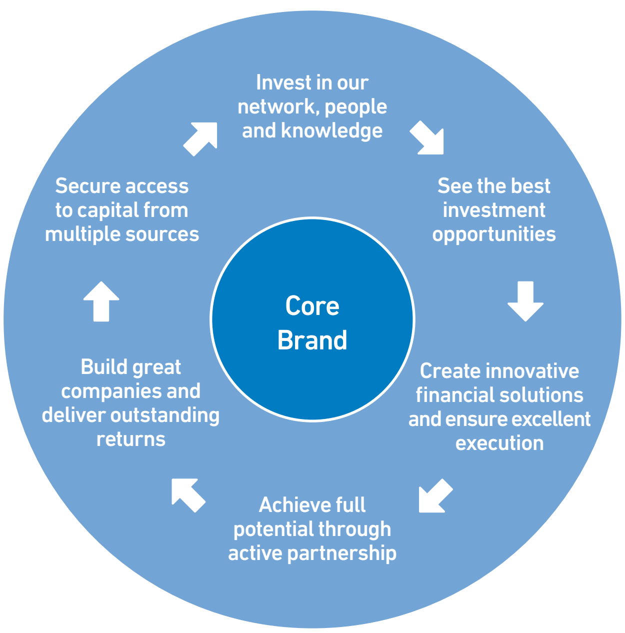
Each business line benefits from the strengths of the Group. Some elements of the business model, such as the ability to secure access to capital from multiple sources or the strength of the 3i brand, have equal importance for all business lines. Others may differ in emphasis, for example, with respect to Active Partnership. The nature and intensity of the relationship that we have with the team of a private equity or infrastructure portfolio company, where we hold significant equity, will differ from the relationship we have with the management team in a company where our Debt Management business is holding debt.

The investment process is rigorous and consistently applied within each business line. The decision making process is structured through a series of carefully planned steps, from sourcing opportunities and early team reviews, through to a final Investment Committee. The performance of each investment is then subject to a formal review process involving monthly and quarterly reporting. In addition, we are typically represented on the boards of our Private Equity and Infrastructure investments.

Secure access to capital from multiple sources
As a listed company with its own capital and as a manager of or adviser to external funds, 3i has access to multiple sources of funds. This provides resilience and sustainability and depends upon performance, transparency and a long-term approach to managing relationships.

Invest in our network, people and knowledge
Our strong culture of working across borders and harnessing the skills and knowledge from local, sector and business line teams delivers the "best team for the job" for each phase of the investment lifecycle. Sustaining this requires investment in our people, systems and communications.

See the best investment opportunities
Access to high quality investment opportunities is critical to future value growth. Investment over many decades in our network, people, knowledge and relationships provides us with the right relationships and insights to deliver this.



Build great companies and deliver outstanding returns
Three significant Private Equity investments, Hyva, MWM and Ålö, are examples of this. Each of these businesses delivered strong and sustained growth in earnings in competitive markets. In Infrastructure, examples include Anglian Water and Eversholt.

Achieve full potential through active partnership
Our rigorous methodology for effecting business change is focused on operational and functional expertise, sector and strategic insight and high standards of governance.

Create innovative financial solutions and ensure excellent execution
3i has a strong heritage of successfully aligning interests and delivering innovative financial solutions. Our scale, culture, experience and training are central to sustaining this. The development of our infrastructure and debt management capabilities are good examples of this.

Returns model

The Returns model, provided in the table below, details the key elements of return under the headings of Gross portfolio return, Net portfolio return and Total return. As can be seen in the Business review, we have increased disclosure in this year's accounts to include Net portfolio return by business line.

The amount and the nature of the contribution that each business line makes to the Group returns depends upon the scale of assets under management, as well as the proportion of own balance sheet and external funds deployed.

Table 1: Proportion of own capital and external funds by business line

at 31 March 2012

	Private Equity	Infrastructure	Debt Management	Group
Own balance sheet %	66%	32%	1%	40%
External funds %	34%	68%	99%	60%
Total AUM	**£5,296m**	**£1,734m**	**£3,358m**	**£10,493m**

A higher proportion of balance sheet investment in the Private Equity business means that gross portfolio return is the most significant element of net portfolio return for this business line. Debt Management and Infrastructure have higher proportions of external funds and, consequently, fees and carried interest from funds are more significant elements of the return.

With the appropriate balance of third party and own balance sheet funding, all of our business lines aim to deliver 15% net returns across the cycle. An efficient balance sheet structure for the Group, should ensure that there is no further dilution of returns.

	Gross portfolio return	Net portfolio return
Private Equity	The performance of the portfolio is derived from: – realised profits from the sale of investments; – unrealised portfolio value growth; and – portfolio income.	Gross portfolio return plus/less: – fees from funds; – carried interest from funds; – carried interest payable to staff; and – operating expenses.
Infrastructure	The performance is derived from: **3iN** – dividends; and – unrealised growth in the value of the Group's holding driven by the performance of the assets. **India Fund** – realised profits from the sale of investments; – unrealised portfolio value growth; and – portfolio income.	Gross portfolio return plus/less: – fees from funds; – carried interest and performance fees from funds; – carried interest and performance fees payable to staff; and – operating expenses.
Debt Management	Equity stakes in debt funds return: – realised profits from the sale of debt investments; – equity distributions; and – unrealised value growth.	Gross portfolio return plus/less: – fees from funds; – carried interest from funds; – long-term incentives, including earn outs payable to staff; and – operating expenses.

Group total return

Net portfolio return plus/less:
- funding costs;
- foreign exchange; and
- pensions.

Strategy and performance

Here are the key elements of our strategy, a summary of how we plan to deliver them, the risks involved and our progress.

Strategy	Priorities: Today	Priorities: Tomorrow
Invest	Maintain our highly selective approach to new investment and continue to invest in the portfolio to support growth, organically or by acquisition. Continue to improve our investment and portfolio management processes. Continue to build our market profile and access to high quality opportunities in developing markets.	As conditions improve, increase the levels of investment in our three business lines.
Grow our business	**Private Equity:** continue to focus on growing existing portfolio value and building on our Active Partnership, Business Leaders Network and approach to responsible investing. **Infrastructure:** increase assets under management through growing existing portfolio value, making additional high quality investments and raising further capital. **Debt Management:** Increase assets under management by raising additional funds and making further acquisitions.	Use the strength of our balance sheet and relationships with investors to develop each of our business lines. Improve our operational effectiveness as we continue to reduce costs and further improve our processes.
Build on our reputation	Capitalise on the benefits of new Responsible Investing processes and systems. Use the insights gained from our brand refresh project to strengthen our offering, our approach to the market and to enhance our competitive advantage.	Maintain our focus on raising our investment performance. Build on engagement with the portfolio on ESG issues.
Maintain "One 3i" culture	Build on momentum created through our 2012 Values workshops (92% of staff attended). Continue to invest in our knowledge portal and "best team for the job" approach to resourcing investments/projects.	Ensure consistency of investment strategy and approach across business lines. Track general progress through staff and key audience research. Follow up on specific points emerging from 2012 staff survey.

The key Group financial performance measures

	2012	2011
Gross portfolio return	**(8.2)%**	17.1%
Net portfolio return	**(10.6)%**	12.8%
Cost efficiency[1]	**2.3%**	3.2%
Operating expenses per AUM[2]	**1.5%**	1.8%
Total return	**(19.5)%**	10.6%
Diluted net asset value per ordinary share	**£2.79**	£3.51
Gross debt	**£1,623m**	£2,043m
Net debt	**£464m**	£522m

1 Cost efficiency is net operating expenses over opening portfolio value.
2 Weighted average AUM.

Risks

The major risks to investing well are:

- the macroeconomic environment. Although the outlook has generally improved in 2012 in most of the countries in which 3i operates, it remains fragile in some key markets such as in Europe;
- competitive pressure resulting in unattractive pricing for new investments; and
- failing to maintain our investment discipline.

The major risks to growing our business are:

- the ability to retain or attract and integrate high calibre staff;
- failure to take advantage of opportunities to invest;
- competitive pressure resulting in unattractive pricing; and
- failure to maintain our disciplined approach to asset management and strategic development.

The major risks to our reputation continue to be:

- not making high quality investment and portfolio management decisions, supported by robust processes;
- not implementing our strategy effectively; and
- not participating actively in industry and sector regulatory developments.

The major risks to maintaining a "One 3i" culture are:

- not investing sufficiently in staff development and training; and
- not adhering to our values.

Performance

Gross portfolio return by year (%)

year to 31 March	
2008	23.9
2009	(36.7)
2010	20.9
2011	17.1
2012	**(8.2)**

Investment activity (£m)

year to 31 March	2012	2011
Investment	**(646)**	(719)
Realisations	**771**	609
Net divestment/ (investment)	**125**	(110)

Assets under management (£m)

year to 31 March	3i Direct	Managed and advised by 3i	Total
2010	5,787	3,846	9,633
2011	5,450	7,236	12,686
2012	**4,174**	**6,319**	**10,493**

Responsible Investing

New Responsible Investing processes and systems were introduced throughout the year.

As a result, opportunities have emerged to manage ESG risks better and protect portfolio value.

Brand review

A thorough review of 3i's positioning, values, key messages and visual identity was undertaken.

Each of these aspects of our brand was refreshed in the year.

Research highlighted that 3i's values and its approach to doing business were key differentiators.

Staff survey results 2012

Employee engagement	
2009	83%
2010	74%
2011	86%
2012	**69%**

Employee engagement

Highlights

- 90% of staff are committed to helping 3i achieve its objectives; and
- 72% of staff are proud to work for 3i.

Opportunities for improvement

- to improve morale following a significant restructuring; and
- further improve communication across geographies.

Business review

A review of our business at a Group and business line level.

Group overview

3i is an international investor focused on private equity, infrastructure and debt management, investing in Europe, Asia and the Americas. Our strategy is set out on pages 16 and 17.

Introduction

All three business lines invest using a mix of the Group's own balance sheet capital and external capital. Total assets under management at 31 March 2012, including 3i's commitments to funds, were £10.5 billion (2011: £12.7 billion), including £6.3 billion (2011: £7.2 billion) advised or managed on behalf of others. The composition of our assets under management is set out on the following pages. Further detail is also provided on the composition of the investment portfolios within each of the business line reviews on pages 30 to 46. Information on our 10 largest and 50 of our largest investments is provided on pages 22 and 23, and 136 to 139 respectively.

A detailed review of our performance at a Group and business line level for the year to 31 March 2012 is set out in this Business review. In summary, the Group's total return is generated by the realised and unrealised returns we achieve from our direct portfolio and the fees and carry that we receive from advising or managing external funds, less the operating expenses and funding costs of the business.

Risk management and corporate responsibility, for which there are reports on pages 53 and 60 respectively, are central to our strategy. During the year, a revised set of policies and procedures were implemented to further develop our approach to responsible investing. An exercise was also conducted to refresh the key elements of our brand in terms of values, positioning key messages and visual identity.

Employee engagement is our key non-financial performance measure. As an international investor employing a relatively small number of people in a highly competitive market, employee engagement is important to 3i and we undertake a detailed survey of our staff each year.

Achieving the right balance between transparency and accessibility of information is an important factor in the continued development of our online Reporting centre.

Increased disclosure this year includes information relating to net portfolio return by business line and further disclosure with respect to the investment portfolio.

For more information, go to:
Strategy and performance p16 and p17
The key Group financial performance measures p17

For more information, go to:
/transparency

Assets under management

The Group defines its assets under management ("AUM") as the total commitments, including the Group's, to its active managed and advised funds, as well as the residual cost of investments in funds that are already invested and the cost of any other investments owned directly by 3i.

Total AUM of £10,493 million at 31 March 2012 (2011: £12,686 million) reflected the reduction in Eurofund V AUM as we came to the end of the investment period in November 2011 and switched to a residual cost basis. The reduction also reflects net divestment activity from both the Group's balance sheet and invested funds and a £249 million reduction due to the weakening of sterling against euro denominated managed and advised funds.

These factors were partly offset by growth in the AUM in Infrastructure and the launch in the year of both Vintage II ($400 million) and Palace Street I (€50 million) by Debt Management.

As can be seen from Charts 1, 2 and 3, 3i has a well diversified investor base for the funds it manages or advises both by geography and by type of investor.

Table 2: Assets under management

	Close date	Original fund size	Original 3i commitment	Outstanding 3i commitment at March 2012	% invested at March 2012	Gross money multiple[1] at March 2012	AUM
Private Equity							
3i Eurofund III	July 1999	€1,990m	€995m	€90m	91%	2.1x	€82m
3i Eurofund IV	June 2004	€3,067m	€1,941m	€78m	96%	2.3x	€512m
3i Eurofund V	Nov 2006	€5,000m	€2,780m	€486m	83%	0.8x	€3,458m
3i Growth Capital Fund	March 2010	€1,192m	€800m	€376m	53%	0.9x	€1,192m
Other	Various	Various	Various	n/a	n/a	n/a	£838m
Infrastructure							
3i India Infrastructure Fund	March 2008	$1,195m	$250m	$75m	70%	1.0x	$945m[2]
3i Infrastructure plc	March 2007	£1,040m[3]	£355m[4]	n/a	n/a	n/a	£1,040m
Other	Various	Various	Various	n/a	n/a	n/a	£104m
Debt Management						Average paid yield[5]	
Harvest I	April 2004	€514m	€15m	–	100%	9.4%	€255m
Harvest II	April 2005	€552m	€5m	–	100%	12.7%	€518m
Harvest III	April 2006	€660m	€5m	–	100%	9.6%	€620m
Harvest IV	June 2006	€752m	€6m	–	100%	10.5%	€722m
Harvest V	April 2007	€650m	€10m	–	100%	4.1%	€600m
Windmill I	October 2007	€600m	€5m	–	100%	5.7%	€492m
Friday Street	August 2006	€300m	nil	–	100%	2.6%	€131m
Palace Street I	August 2011	€50m	€50m	€7m	86%	8.8%	€50m
Vintage I	March 2007	€500m	nil	–	100%	4.3x[1]	€404m
Vintage II	November 2011	$400m	nil	–	100%	n/a	$317m
Non-core							£104m
Total AUM (in sterling)							**£10,493m**

1 Gross money multiple is cash returned to the Fund plus value, as at 31 March 2012, as a multiple of cash invested.
2 Adjusted to reflect 3i Infrastructure plc's $250 million commitment to the Fund.
3 Based on latest published NAV (ex-dividend).
4 3i Group's proportion of latest published NAV.
5 The average paid yield of the CLO and debt funds is the average annual return for equity note holders since the funds' inception.

Chart 1: Total AUM by business line
as at 31 March 2012

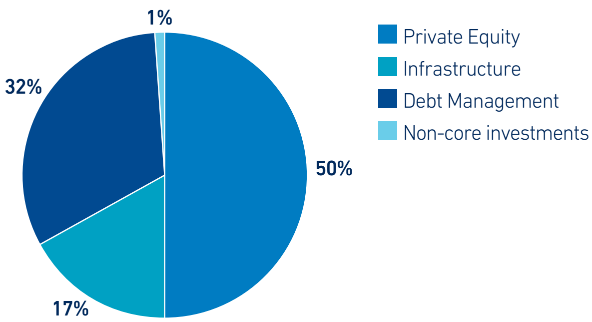


Chart 2: External investor base for non-listed funds managed and advised by geographic locations
as at 31 March 2012

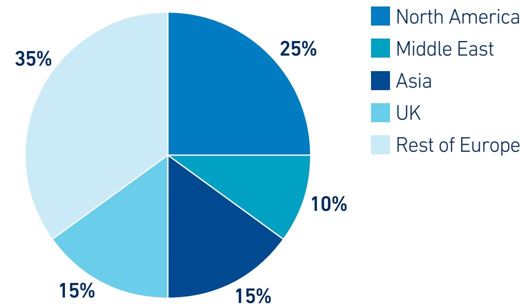
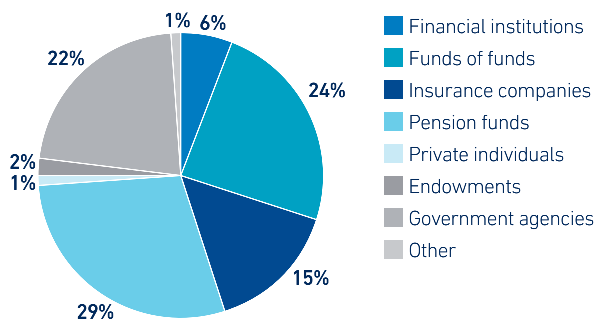
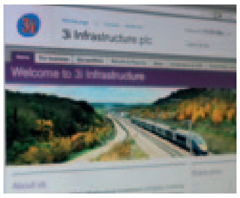


Chart 3: External investor base for non-listed funds managed and advised by type of investor
as at 31 March 2012



Ten largest investments

3i Infrastructure plc ("3iN") Infrastructure



A FTSE 250 company advised by 3i which was launched and listed on the London Stock Exchange in 2007.

Invests primarily in utilities, transportation and social infrastructure in Europe.

Portfolio of 14 investments at 31 March 2012, including six held through the $250 million commitment to the 3i India Infrastructure Fund.

3iN invested £204 million and delivered a total return of £56 million in the year to 31 March 2012.

3iN had a market capitalisation of £1,097 million at 31 March 2012.

Date of first investment	**March 2007**
Proportion of equity	**34.1%**
Residual cost	**£302m**
Valuation at 31 March 2012	**£375m**
GPR for 3i year to 31 March 2012	**£40m**
Basis of valuation	**Quoted**

Action Private Equity

A Dutch-based non-food discount retailer with 275 stores in the Benelux and Germany.

3i invested to provide capital to support a buyout and to accelerate the roll-out of stores internationally.

Eurofund V

Since investing, Action has performed well and the store roll-out plan for 2012 has been increased from 20 to 50 stores.

Date of first investment	**September 2011**
Proportion of equity	**35.9%**
Residual cost	**£115m**
Valuation at 31 March 2012	**£143m**
GPR for 3i year to 31 March 2012	**£40m**
Basis of valuation	**Earnings**

ACR Private Equity

3i supported the start up of this Singapore-based, pan-Asian reinsurance business with a $200 million investment in 2006.

A series of natural disasters, including Thai floods and earthquakes in Japan and New Zealand, have impacted valuation.

3i own balance sheet

In April 2012, ACR announced that the Japanese trading group, Marubeni, had agreed to make a substantial investment in the business.

Date of first investment	**November 2006**
Proportion of equity	**31.1%**
Residual cost	**£105m**
Valuation at 31 March 2012	**£118m**
GPR for 3i year to 31 March 2012	**£(30)m**
Basis of valuation (Other)	**Book multiple**

Hilite Private Equity

A German-based provider of fluid control component technology for the engineering and manufacturing industries. Operations in more than 15 countries.

3i invested to provide capital to support a buyout and to accelerate international growth.

Eurofund V

Since investing, Hilite has performed well and, in April 2012, announced that it had reached agreement with Cummins to sell its emission control activity.

Date of first investment	**May 2011**
Proportion of equity	**21.9%**
Residual cost	**£99m**
Valuation at 31 March 2012	**£115m**
GPR for 3i year to 31 March 2012	**£28m**
Basis of valuation	**Earnings**

Mold-Masters Private Equity

A Toronto-based provider of plastics processing technology with operations in more than 20 countries.

3i invested to provide capital to support a share restructuring and to accelerate international growth.

3i own balance sheet

Since 2008, sales in China and India have grown at a compound annual growth rate of 24% and production capacity in China has trebled.

Date of first investment	**August 2007**
Proportion of equity	**49.3%**
Residual cost	**£75m**
Valuation at 31 March 2012	**£115m**
GPR for 3i year to 31 March 2012	**£35m**
Basis of valuation	**Earnings**

Note: GPR is Gross portfolio return.

Foster + Partners Private Equity

A London-based provider of architectural services with offices in nine cities. It has completed projects in over 60 countries, including iconic buildings such as the Gherkin in London and Beijing airport.

3i invested to provide capital to support a share restructuring and international growth.

3i own balance sheet

International growth has been strong, with Asia accounting for a third of revenue in 2011. The reduction in value in the year to 31 March 2012 was driven by a lower valuation multiple.

Date of first investment	**May 2007**
Proportion of equity	**40.0%**
Residual cost*	
Valuation at 31 March 2012	**£112m**
GPR for 3i year to 31 March 2012	**£(18)m**
Basis of valuation	**Earnings**

* Due to a confidentiality agreement in place at the time of the investment, the residual cost cannot be disclosed.

Mayborn Private Equity

UK-based manufacturer and distributor of baby and child products under the Tommee Tippee brand. Operations in 46 countries.

3i invested to provide capital to support a buyout and to accelerate growth through international expansion.

Eurofund IV

International expansion has driven rapid growth, including a successful launch in the US in 2010 through an exclusive agreement with Babies R US. The addition of Target, as a second US retailer, will support continued growth.

Date of first investment	**June 2006**
Proportion of equity	**44.7%**
Residual cost	**£103m**
Valuation at 31 March 2012	**£105m**
GPR for 3i year to 31 March 2012	**£11m**
Basis of valuation	**Earnings**

NORMA Private Equity

German-based provider of joining technology for the engineering and manufacturing industries. Operations in more than 80 countries.

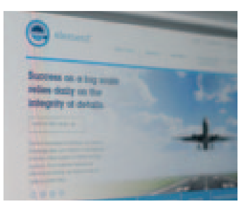
NORMA was created out of the merger of two portfolio companies – Rasmussen (Eurofund IV) and ABA (Eurofund III) in 2006. Since then, it has become a global leader in its sector through organic growth and international acquisitions.

Eurofund III and IV

NORMA achieved a successful IPO on the Frankfurt Stock Exchange in April 2011, delivering proceeds in the year for 3i of £77 million. These proceeds, combined with the value of 3i's remaining quoted holding, are a multiple of 5.7x cost.

Date of first investment	**April 2006**
Proportion of equity	**21.1%**
Residual cost	**nil**
Valuation at 31 March 2012	**£103m**
GPR for 3i year to 31 March 2012	**£(12)m**
Basis of valuation	**Quoted**

Element Private Equity



Benelux-based specialist in materials and product qualification testing, with 29 laboratories across Europe and the United States.

3i invested to enable the buyout of the business from Stork and to support international growth through a buy and build strategy.

Eurofund V

Since investing, Element has performed well, successfully rebranded and completed the acquisitions of DTL and Mar-Test in North America.

Date of first investment	**December 2010**
Proportion of equity	**42.2%**
Residual cost	**£63m**
Valuation at 31 March 2012	**£90m**
GPR for 3i year to 31 March 2012	**£34m**
Basis of valuation	**Earnings**

Scandlines Private Equity

Sea ferry operator carrying c.12 million passengers and c.3.6 million vehicles a year on nine routes between 13 ports in the Baltic Sea.

3i invested to support the growth and development of the business into a "best-in-class operator".

Eurofund V

New, more efficient capacity, improved marketing and significant efficiency improvements have enabled Scandlines to make considerable progress towards its objective of becoming a best-in-class operator.

Date of first investment	**August 2007**
Proportion of equity	**27.3%**
Residual cost	**£39m**
Valuation at 31 March 2012	**£89m**
GPR for 3i year to 31 March 2012	**£1m**
Basis of valuation	**DCF**

Note: GPR is Gross portfolio return.

Market environment

Introduction

This section provides commentary on the broader environment in which the Group and its business lines operate. It includes a review of macroeconomic conditions, mergers and acquisitions ("M&A") activity as well as the levels of investment and fundraising. The regulatory environment is covered in the Risk section on page 53.

Conditions varied considerably during the year to 31 March 2012. Increased optimism and a marked increase in activity, supported by wider debt availability early in the year, were followed by a sharp slowdown in the summer as the euro crisis dominated headlines. Sentiment improved in the first quarter of calendar 2012, as the US economy showed some signs of recovery although it remains to be seen if this will be sustained into a fundamental improvement in macroeconomic conditions.

Macroeconomic conditions

3i's direct operations are in Europe, Asia and the Americas. Our investment portfolio comprises companies which also have a wide breadth of international diversity. Consequently, it is not just the economies of those countries where we have operations that are relevant to 3i. An analysis of our portfolio composition at a Group and business line level is provided on pages 133 to 135.

World economic growth slowed in 2011 with real GDP growth of 3.8% (2010: 5.2%) (source: IMF) despite strong growth in Asia, Latin America and emerging markets of 6.2% (2010: 7.3%). China (9.2%) and India (7.4%) remained strong drivers of world growth rates although Brazilian growth of 2.9% (2010: 7.5%) slowed as a result of higher interest and exchange rates. However, growth in Europe, the US and Japanese economies was weak at 1.6% in 2011 (2010: 3.2%). Within Europe, some countries and, in particular, Germany (3.0%) saw good growth.

Against this backdrop, currency volatility continued to be a feature with the euro and US dollar both fluctuating by up to 10% within the year. The euro weakened against sterling in the year by 4.6%.

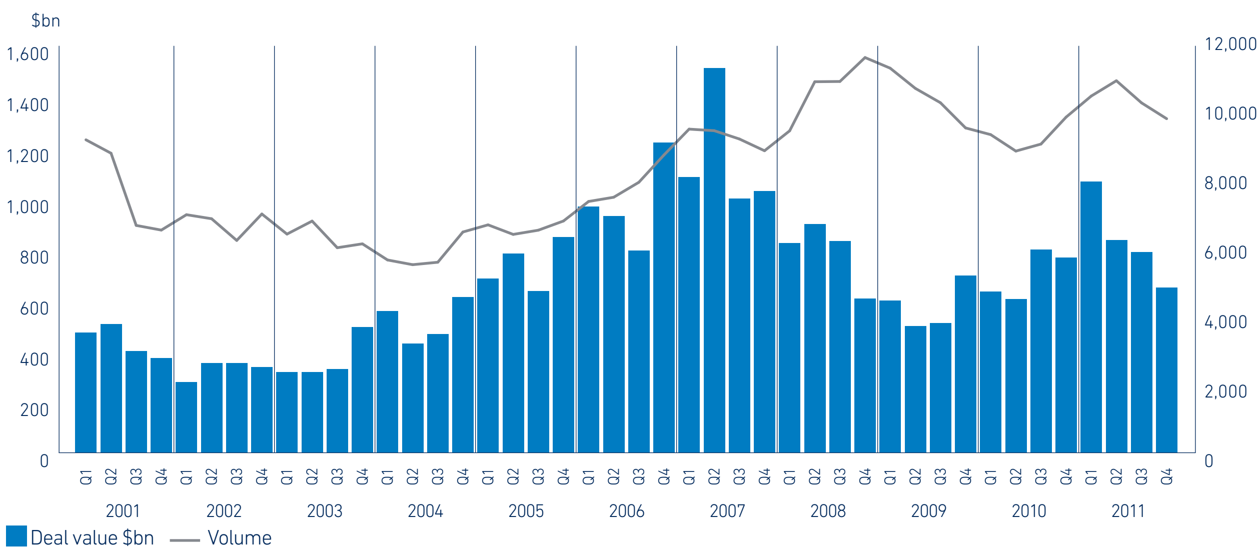
The condition of equity markets is important to 3i as they influence M&A activity and company valuations. The major global stock markets of relevance to 3i ended the year broadly flat. However, there was a considerable degree of volatility within the year. For example, the FTSE began and closed the year to 31 March 2012 at 5,909 and 5,768 respectively. However, it reached a high of 6,083 in May 2011 and a low of 4,944 in October 2011.

Mergers and acquisition activity

Conditions in M&A markets influence the environment for both investment and realisations. The level of global M&A activity followed wider sentiment with a strong start to calendar 2011, followed by a sharp slowdown in the summer as wider macro concerns came to the fore.

Global M&A activity in calendar year 2011, at 42,422 transactions, was up 1% from 2010 (source: Dealogic). The year's total was driven by volume in the first half of 22,674 transactions with quarterly volume dropping c.25% by the fourth quarter to 8,563 transactions. Europe was particularly impacted by this slow down, with fourth quarter 2011 M&A activity down 47% on the same period in 2010, the lowest quarterly total since mid 2004.

Chart 4: Global M&A deals 2001 to 2011 $bn



Source: Dealogic, M&A review.

This trend continued into the first quarter of 2012, with M&A activity down by 26% on the same period in 2011 (source: Dealogic). Activity is set to remain low, with Ernst & Young's Capital Confidence Barometer in April 2012 showing that only 31% of the 1,500 senior executives interviewed would pursue an acquisition in the next 12 months, down from 41% in October 2011.

Investment and fundraising conditions

Private Equity

After a strong start to the year, private equity investment in calendar 2011 was flat at $184 billion (2010: $184 billion), with activity peaking in the second quarter and then falling as macro concerns grew (source: Bain and Company). The final quarter of calendar 2011 was the quietest quarter for new investments since the first quarter of 2010. Unsurprisingly, this was largely driven by a slowdown in Europe. In contrast, the Americas experienced broadly stable activity levels through 2011 and Asia saw modest growth in the final quarter of 2011.

The mid-market, which 3i targets, did not decline as rapidly as that for larger deals.

Notwithstanding the trend in activity levels, valuations for new investments increased in 2011 as the operating environment and earnings outlook began to stabilise. The average headline purchase price multiple in calendar 2011 was 8.4x EBITDA (earnings before interest, tax, depreciation and amortisation), (2010: 8.1x) higher than in any year since 2008 (source: Ernst & Young). Increased availability of leverage may have been a factor in this rise, with average debt multiples of 5.2x EBITDA reported on new deals in 2011 (2010: 4.7x). The continuing overhang of capital, as shown in Chart 5 on page 26, was another possible influence.

Although headline prices remain relatively high, the debt element continues to be lower than seen in the 2003–2007 vintages, with 62% of purchase price being funded by debt.

Global data from Preqin indicates that the environment for fundraising remains challenging. A total of 477 funds achieved a final close in 2011, raising $230 billion, some 6.6% lower than 2010 and well below the peak of $625 billion in 2008.

Limited Partner investors continue to reduce the number of managers they have in their investment programmes and look for new ways of investing into the asset class. Accordingly, a number of managed account style initiatives were set up in the year for large LPs to commit alongside more established fund structures.

There was continued fund raising growth in 2011 in markets outside Europe and the US with funds targeting Latin America holding up particularly well. Across Asia there was a continuation of the trend to country specific rather than pan-regional funds with one factor being the rise of funds denominated in renminbi.

Infrastructure

Despite market and macro uncertainty, a few sizeable infrastructure transactions were completed during the year in Europe. These included the sale of electricity networks in the UK and in Germany, the public-to-private acquisition of Northumbrian Water in the UK, as well as the €1.5 billion acquisition of LNI in Finland. This activity was underpinned by the continued availability of debt for strong infrastructure businesses at relatively attractive terms.

Investment opportunities in Europe are likely to continue to emerge from a number of sources: non-core disposals from both corporates and financial institutions; policy drivers, such as the drive to increase private investment in infrastructure development; and secondary market sales.

In India, macro conditions were challenging during the year with high inflation, political uncertainty and a growing fiscal deficit impacting the outlook for growth. Investment activity, as a result, was lower. However, economic growth and an increasingly urbanised population continue to drive demand for infrastructure development.

Debt Management

Today, there are c.50 European Collateralised Loan Obligation ("CLO") managers with approximately €107 billion of assets under management (source: Creditflux). The top ten managers by AUM, including 3i, together manage c.€63 billion or 59% of CLO assets.

The European CLO market continues to be impacted by macro environment concerns and no new CLOs have been launched since the market closed in 2009. Although primary activity has improved in Europe, however, most deals continue to be re-financings or secondary/tertiary buyouts with the net amount of leveraged loans in the market still contracting.

A stronger primary market will be necessary in order to support new CLO issuance in Europe. In contrast, the securitisation market for new CLO issuance has re-opened in the US, with some 28 deals launched in 2011 with a value of €12.2 billion and a further $10.6 billion launched in the first four months of 2012, across 24 deals.

Pricing in the European secondary loan market peaked in May 2011 before falling in the second half of the year and then rising in the first quarter of 2012.

Market environment

Realisation conditions

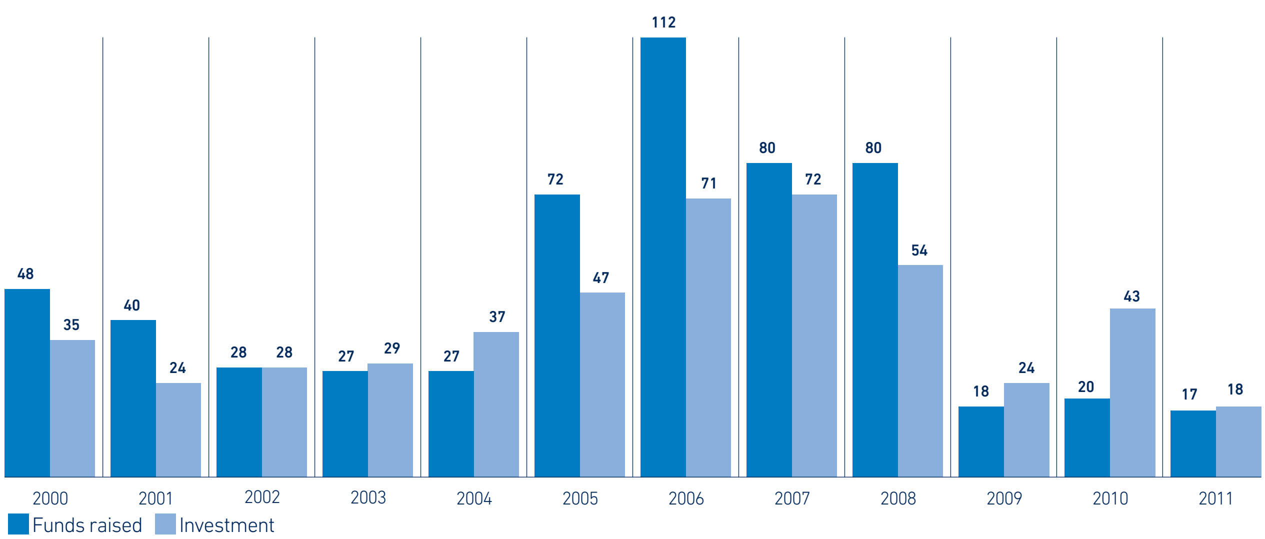
Following increased momentum in 2010, private equity exit activity was stronger in calendar 2011, especially in the first half. Sales to strategic buyers remain the key exit route, with secondary sales to other financial sponsors remaining low compared to the 2003-2007 period.

The IPO market provided a good exit window for private equity in the first half of 2011, with 70 companies raising $31.4 billion through IPO. The second half activity was much lower, some 77% below the first half and at the lowest value since 2009. In the growing markets of China, India and South America, exit activity was slow. In China, the depth of capital markets meant that IPO remained the primary exit route while, outside China, strategic sales remain more important.

Outlook

Although, in general, macroeconomic sentiment is more positive at the start of this financial year, the IMF and others expect the pattern of lower growth that we have seen since the credit crisis in 2008 to persist and for a degree of fragility to remain. The recent political changes in Europe and increased uncertainty on economic policy has increased the likelihood of further market volatility. In this environment, activity in 3i's main markets is likely to continue to be subdued but be subject to short-term fluctuations.

Chart 5: Funds raised and invested – Europe 2000 to 30 June 2011 (€bn)



Source: EVCA for 2007-2010, EVCA/Thomson Reuters/PwC for previous years. Europe by location of private equity firm.

Investment and realisations

Table 3: Investment activity – own balance sheet and external funds

year to 31 March	3i own balance sheet 2012 £m	3i own balance sheet 2011 £m	External funds 2012 £m	External funds 2011 £m
Realisations	**771**	609	**470**	166
Investment	**(646)**	(719)	**(574)**	(736)
Net divestment/ (investment)	**125**	(110)	**(104)**	(570)

Realisations for the year to 31 March 2012 at £771 million (2011: £609 million), resulted in the Group being in a net divestment position of £125 million (2011: £110 million net investment). The net cash inflow in the year was £307 million as the Group took advantage of favourable exit conditions in the first half of the year and remained selective with regard to new investment throughout.

Investment

The Group maintained its selective approach to investment, with a total of £374 million invested in nine (2011: nine) new portfolio companies in the year to 31 March 2012 (2011: £308 million), which are detailed in Table 7. There was a marked slow down in investment activity in the second half of the year, primarily as a result of economic uncertainty surrounding the euro crisis and a general slow down in M&A activity.

The Private Equity business line completed seven new investments in the year to 31 March 2012 (2011: six), investing £345 million (2011: £270 million).

The Infrastructure business line invested £70 million in the year, with £33 million resulting from the Group exercising 3i Infrastructure plc warrants, which were issued at IPO in 2007. The new investment in LNI of £28 million was made alongside a £195 million investment by 3i Infrastructure plc. The Group also invested a further £8 million into GVK, through its commitment to the 3i India Infrastructure Fund.

The Debt Management business line launched a Credit Opportunities Fund, Palace Street I, in August 2011 and at 31 March 2012 had invested €43 million of the €50 million Group commitment to the Fund.

The non-cash element of investment relates to capitalised interest earned mainly on shareholder loans and PIK notes in the Private Equity business line. This amounted to £163 million in the year to 31 March 2012 (2011: £158 million).

Total investment was £646 million in the year to 31 March 2012 (2011: £719 million).

Table 4: Investment type

for the year to 31 March	2012 £m	2011 £m
New/first investment	**374**	308
Acquisition finance	**12**	54
Restructurings	**9**	16
Capitalised interest[1]	**163**	158
Purchase of portfolio debt instruments	**–**	110
Other	**88**	73
Total	**646**	719

1 Includes PIK notes.

Table 5: Investment by business line

for the year to 31 March	2012 £m	2011 £m
Private Equity	**540**	634
Infrastructure	**70**	36
Debt Management	**36**	49
Total	**646**	719

Table 6: Investment by geography

for the year to 31 March	2012 £m	2011 £m
UK	**133**	221
Continental Europe	**469**	433
North America	**18**	3
Asia	**26**	62
Total	**646**	719

Investment and realisations

Table 7: New investment
year to 31 March 2012

Investment	Business line	Country	Sector	Date	3i investment £m	Value at 31 March 2012 £m
Action	Private Equity	Netherlands	Consumer	Sept 2011	114	**143**
Hilite	Private Equity	Germany/US	Industrials and Energy	June 2011	94	**115**
Etanco	Private Equity	France	Industrials and Energy	Oct 2011	70	**67**
LNI	Infrastructure	Finland	Infrastructure	Jan 2012	28	**29**
Loxam	Private Equity	France	Business Services	June 2011	19	**23**
TouchTunes	Private Equity	US	Technology, Media, Telecoms	Aug 2011	18	**22**
GO Outdoors	Private Equity	UK	Consumer	April 2011	17	**13**
World Freight	Private Equity	France	Business Services	April 2011	13	**11**
Dalmore	Infrastructure	UK	Infrastructure	July 2011	1	**1**
Total					374	**424**

Realisations

Proceeds from the sale of investments in the year to 31 March 2012 totalled £771 million (2011: £609 million) were achieved at a lower uplift over opening value of 3% than previous years (2011: 26%). This was driven by the majority of these assets being valued on an imminent sales basis at the beginning of the year, with proceeds therefore being received at close to opening value. The aggregate money multiple for the ten largest realisations in the year was 2.9x.

The Developed Markets Private Equity business accounted for the majority of exits in the year to 31 March 2012. Key realisations included £197 million for MWM, £180 million for Hyva, £139 million for Ålö Intressenter and £77 million for the partial realisation of NORMA. A consistent theme in these industrial businesses was the international element in their value growth through both sales generation and sourcing.

Developing Markets Private Equity received a loan repayment from Joyon (£8 million) and a partial realisation from UFO Moviez (£7 million).

The Non-core portfolio continues to be reduced, with proceeds of £14 million received in the year to 31 March 2012 (2011: £91 million), leaving a remaining portfolio of £103 million at 31 March 2012.

Realisations from sales to trade buyers at £291 million (2011: £156 million) and secondary investors at £349 million (2011: £104 million) reflected the increase in M&A market activity in the first half of the year.

Table 8: Realisations by business line

for the year to 31 March	2012 £m	2011 £m
Private Equity	**756**	372
Infrastructure	**1**	1
Debt Management	**–**	145
Non-core activities	**14**	91
Total	**771**	609

Table 9: Realisations by geography

for the year to 31 March	2012 £m	2011 £m
UK	**76**	376
Continental Europe	**670**	190
Asia	**16**	25
North America	**9**	18
Total	**771**	609

Table 10: Realisations by type

for the year to 31 March	2012 £m	2011 £m
Trade sales	**291**	156
Secondaries	**349**	104
Loan repayment	**18**	33
IPO	**76**	16
Management buyback	**–**	127
Other	**37**	173
Total	**771**	609

Table 11: Ten largest realisations

Investment	Business line	Country	Sector	3i realised proceeds £m	3i money multiple over cost[1]	IRR	Date
MWM	Private Equity	Germany	Industrials & Energy	197	2.9x	29%	Nov 2011
Hyva	Private Equity	Netherlands	Industrials & Energy	180	7.8x	46%	April 2011
Ålö Intressenter	Private Equity	Sweden	Industrials & Energy	139	5.4x	23%	July 2011
NORMA[2]	Private Equity	Germany	Industrials & Energy	77	5.7x	40%	April 2011
RBG	Private Equity	UK	Industrials & Energy	47	3.6x	23%	May 2011
KemFine	Private Equity	Finland	Industrials & Energy	44	2.7x	18%	Aug 2011
TeknikMagasinet	Private Equity	Sweden	Consumer	10	2.2x	13%	Nov 2011
Scandlines[3]	Private Equity	Germany	Industrials & Energy	9	1.9x	23%	May 2011
Joyon[4]	Private Equity	China	Industrials & Energy	8	1.9x	17%	Feb 2012
Butterfield Fulcrum Group	Private Equity	USA	Financial Services	7	0.1x	(55)%	June 2011
Total				**718**	**2.9x**	**25%**	

1 Money multiples are calculated on a 3i only basis in sterling using the prevailing exchange rate at the time of cash flows. For partial realisations made in the year, the valuation of the remaining investment at 31 March 2012 has been used to calculate the money multiple.
2 Partial realisation: 3i retains 21.1% stake (residual cost nil, value at 31 March 2012: £103 million).
3 Partial realisation: 3i retains 27.3% stake (residual cost of £39 million, value at 31 March 2012: £89 million).
4 Loan repayment: 3i retains 49.9% stake (residual cost of £8 million, value at 31 March 2012: £20 million).

Business lines: Private Equity

3i's Private Equity business operates on an international basis across Europe, Asia and the Americas. It is managed operationally on a regional basis with Developed Markets Private Equity, covering Europe and North America, and Developing Markets Private Equity covering Asia and South America. At 31 March 2012, the Private Equity portfolio consisted of 90 companies, with operations in over 70 different countries. The direct value of this portfolio at 31 March 2012 was £2.5 billion and it accounted for £5.3 billion of assets under management.

In recent years, the business has invested through funds containing third-party capital, alongside which 3i co-invests its own balance sheet capital. Eurofund V for buyouts has largely invested in the European market. The Growth Capital Fund, for minority situations, has invested in Europe, Asia and North America.

In 2010, the decision was taken to merge the Buyouts and Growth Capital businesses to form a single Private Equity business line, managed on a regional basis. This new organisational structure facilitates greater collaboration across 3i's international office network. It also delivers an enhanced origination capability and encourages greater emphasis on Active Partnership, sector and Business Leaders Network activities. Significant progress has been made on merging the businesses operationally, at the same time as ensuring that investment and portfolio decision making continued to be managed in line with the existing fund mandates.

During the financial year, 3i extended the reach of the Private Equity business to Brazil. Initially, investments in Brazil will be made fully from the 3i balance sheet, with the medium-term aim of raising a separate fund for investment in this region.

Business model

3i's Private Equity business is focused on investing in mid-market buyout and growth capital transactions.

The investment strategy for the business is built around the following core components:

- identifying and investing in leading mid-market businesses where significant value can be created;
- utilising 3i's local knowledge, range of Business Leaders Network contacts, sector expertise 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 external funds, which are managed alongside 3i's own balance sheet commitments.

Case study **Hilite**

Eurofund V invested €190 million (3i balance sheet proportion: £94 million) in May 2011 to support the buyout of Hilite and to accelerate the international growth of the business. We gained access to this investment through our local presence in Germany and the US and our strong reputation and network in the sector through investments such as NORMA and Hyva.

The investment case was predicated upon the opportunity for market growth and the potential for performance improvement. Hilite operates in a high growth segment of the global automotive market – the manufacturing of hydraulic actuators and timing systems, which improve fuel consumption and reduce emissions. The company's products are used by the world's major automotive manufacturers in the engines, transmissions and exhaust systems of passenger and commercial vehicles.

Hilite's technological expertise and differentiated product offering are enabling it to benefit from the global demand for increased fuel efficiency and emissions reduction. Revenues for calendar year 2011 were up 21% to approximately €370 million.

Based in Marktheidenfeld, Germany, Hilite also has production facilities in the US and, in November 2011, opened a new plant in China.

Since investment, a new Chief Executive Officer, Chief Financial Officer and Chief Operating Officer have been appointed. In addition, a number of Active Partnership initiatives have also helped to identify potential operational improvements. In April 2012, the company reached agreement with Cummins to sell its emissions control business, delivering an effective multiple of 2.1x the proportionate entry price for this part of the business.

The investment process is structured as a series of carefully planned stages. The early stages consist of filtering investment opportunities to create a pool of high potential opportunities, which capitalise on 3i's strengths both to win the investment and to add value once invested. During the year, 93 new opportunities passed these early filter stages and were formally considered as work in progress. During the work in progress stage, the investment case is then built and validated rigorously, the deal structure is optimised, negotiations over detailed terms take place and 3i's competitive position and tactics are determined.

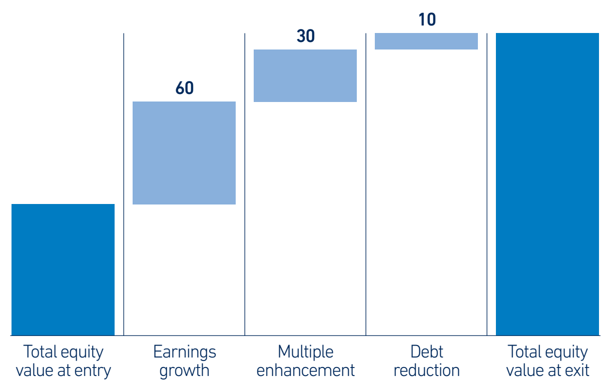
Investment teams working on each opportunity are typically drawn from across our business, based on experience and sector knowledge. All investments are subject to both partner review and final Investment Committee processes. Of the 27 investment opportunities considered for partner review during the year, five were completed as investments and an additional two were signed and are due for completion in the next financial year. Two investments completed in the year, GO Outdoors and World Freight, were considered in the prior year.

Long-term performance

From the Buyouts and Growth Capital investments completed since 2001, there have been 113 realisations to date. These have generated a realised money multiple of 2.1x (£5.6 billion of cash returned) and a realised IRR of 46%. These numbers include realised losses in the period, as well as successful realisations.

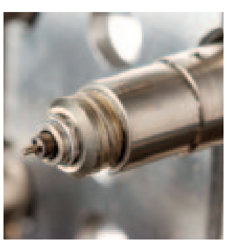
As can be seen from Chart 6, earnings growth was the largest contributor to value creation for these realised investments (60%). Enhanced multiples on exit from an improved strategic position and growth prospects, as well as market movements (30%), was the next most significant factor. Optimising the financial structure provided a further enhancement (10%).

Chart 6: Private Equity sources of value creation from realised investments (%)



Source 3i: 113 realised Private Equity investments since 2001, exited prior to 31 March 2012.

Case study **Mold-Masters**



Mold-Masters is a leading manufacturer of melt delivery and control systems for the plastics industry. From its manufacturing facilities in Canada, China, Germany, India and Brazil, it 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.

3i invested in Mold-Masters in August 2007 to accelerate organic growth in Asia, Eastern Europe and Latin America, and to support acquisitions.

Since investing, we have leveraged our global Business Leaders Network to build the board and executive team. We have also supported the company through a range of performance improvements, including sales force effectiveness, global manufacturing footprint optimisation, new product introductions, upgraded financial management and controls and a de-leveraging in 2009.

Mold-Masters' revenue and earnings for the year to 31 December 2011 were up 23% and 21%, respectively, repeating the 20%+ growth for the previous year. Much of this was achieved through expanding international sales, with core revenue up 20% in Europe and 34% in Asia in 2011.

Overview
Strategy, Business model and KPIs
Business review
Risk
Corporate responsibility
Governance
Financial statements
Portfolio and other information

Business lines: Private Equity

The 10-year track record of the Private Equity business remains positive, with strong performance in the 2003–2006 vintages, and encouraging early performance from the 2011–2012 vintages. The 2007–2010 vintages have performed poorly to date, reflecting the higher multiples that were originally paid for these vintages and a higher level of realised losses than seen in other vintage years. We have continued to present the long-term performance as Buyouts and Growth Capital, reflecting the basis on which the vintages were managed in recent periods.

Table 12: Long-term performance – Private Equity: Buyouts

New investments made in financial years to 31 March Vintage year	Total investment[1] £m	Return flow £m	Value remaining £m	**IRR to 31 March 2012**	IRR to 31 March 2011
2012	281	–	326	**n/a**	n/a
2011	274	–	275	**5%**	n/a
2010	–	–	–	**–**	–
2009	429	5	198	**(13)%**	1%
2008	843	353	204	**(7)%**	(6)%
2007	764	390	309	**9%**	17%
2006	521	1,176	3	**48%**	49%
2005	387	1,044	52	**63%**	61%
2004	332	705	1	**35%**	35%
2003	278	671	21	**49%**	49%

1 Total investment includes capitalised interest.

Table 13: Long-term performance – Private Equity: Growth Capital

New investments made in financial years to 31 March Vintage year	Total investment[1] £m	Return flow £m	Value remaining £m	**IRR to 31 March 2012**	IRR to 31 March 2011
2012	70	–	68	**n/a**	n/a
2011	21	–	25	**20%**	n/a
2010	46	–	17	**(52)%**	8%
2009	210	47	84	**(16)%**	(5)%
2008	1,076	481	525	**(1)%**	1%
2007	554	238	294	**(1)%**	1%
2006	487	629	57	**23%**	23%
2005	179	302	6	**25%**	26%
2004	297	528	–	**26%**	26%
2003	233	551	–	**27%**	27%

1 Total investment includes capitalised interest.

Performance for the year

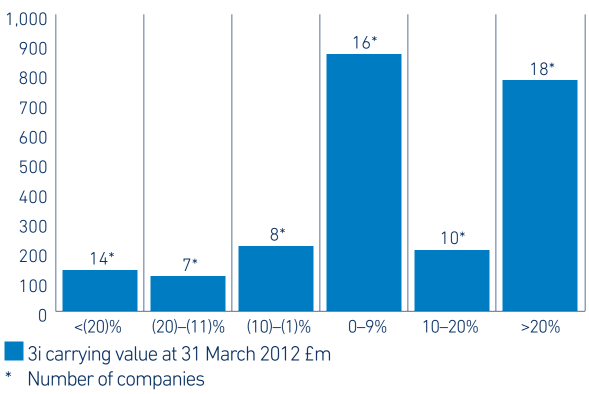
The Private Equity business invested in seven new investments in the year, and delivered a number of good realisations with the largest 10 realising an average of 2.9x return over invested cost (Table 11 on page 29).

Overall, gross portfolio return at £(339) million represented a 10% loss on the opening portfolio value. Within the total portfolio return for the year, the two most recent vintages (March 2011 and 2012) performed well, delivering a 14% gross portfolio return.

The following section provides further details on the overall Private Equity portfolio, including details on earnings and leverage. The performance of the Private Equity business is then broken down into Developed Markets Private Equity and Developing Markets Private Equity, the basis on which it is currently managed.

Despite challenging conditions in many sectors, overall the portfolio grew its earnings on a value weighted basis by 9% in calendar year 2011. Chart 7 below shows the growth rates for earnings across the portfolio for the year to 31 December 2011, weighted by carrying values at 31 March 2012.

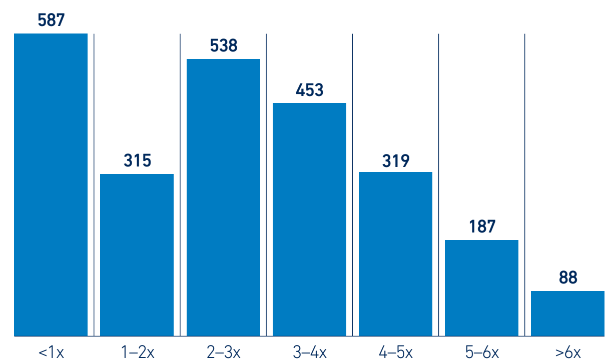
Chart 7: Portfolio earnings growth



In the year to 31 March 2012, 80% of the portfolio by value grew its earnings, with 42% growing at more than 10% year-on-year. Investments in the two most recent vintages saw strong earnings growth at 20% on a value weighted basis. Of the 20% of the portfolio by value where earnings were lower, a large proportion were in Spain, reflecting market conditions.

Leverage levels in the portfolio at 31 March 2012 remained similar to the previous year, with net debt/EBITDA of 3.4x (2011: 3.3x). Chart 8 shows leverage levels across the Private Equity portfolio on a value weighted basis. Leverage levels in the majority of the portfolio on this basis are below 4x EBITDA, with 36% below 2x.

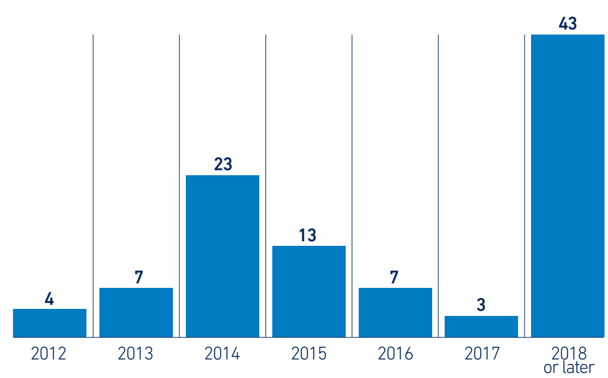
Chart 8: Ratio of net debt to EBITDA – Private Equity portfolio weighted by March 2012 carrying values (£m) as at 31 March 2012



The repayment profile of the debt in the portfolio is shown in Chart 9. A number of refinancings were successfully closed in the year, as a number of portfolio companies extended their existing facilities or took advantage of a period of relatively positive credit markets over the first half of the year to issue high yield bonds.

These refinancings, combined with the leverage profile included on new investments, extended the overall repayment profile of the portfolio. Over 65% is due for repayment in 2015 or later (2011: 59%). A relatively small number of companies drive the 2014 repayment level shown in Chart 9, and plans are underway to either refinance or exit these investments.

Chart 9: Debt repayment profile – Private Equity portfolio repayment index weighted by 3i carrying values (%) as at 31 March 2012



New investment and realisations data and commentary are provided on pages 27 to 29.

Portfolio and performance – Developed Markets

As can be seen from the charts below, the portfolio is well diversified by sector. More than half of the Developed Markets portfolio value is in continental Europe. Of this, 86% is in the Nordics, Benelux, France and Germany and only 14% is in Spain and Italy.

The largest single vintage by value remains the 2008 vintage. 30% of the portfolio is in the two most recent vintages.

Chart 10: Direct portfolio by number
By region as at 31 March 2012

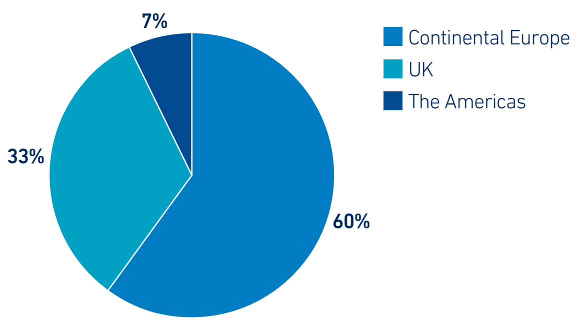


Chart 11: Direct portfolio by value
By region as at 31 March 2012

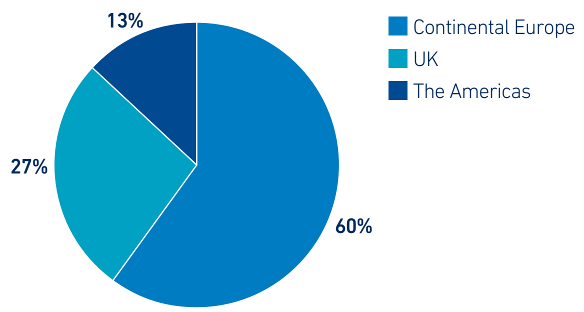


Chart 12: Direct portfolio by number
By sector as at 31 March 2012

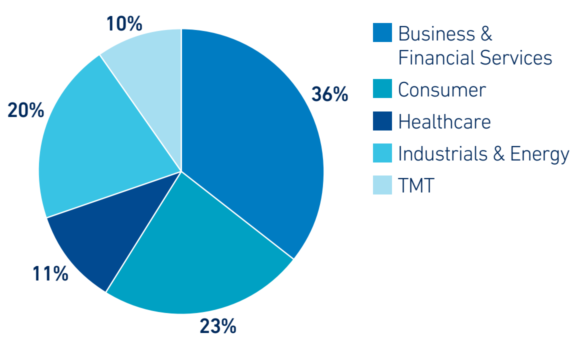


Chart 13: Direct portfolio by value
By sector as at 31 March 2012

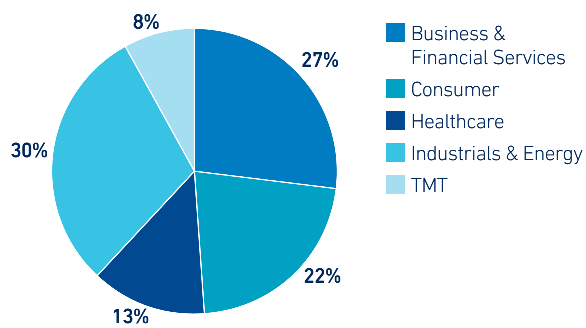


Chart 14: Direct portfolio by number
By vintage year as at 31 March 2012

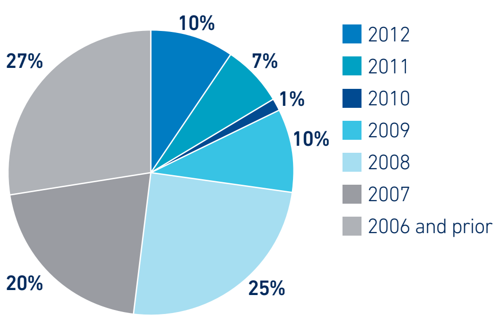
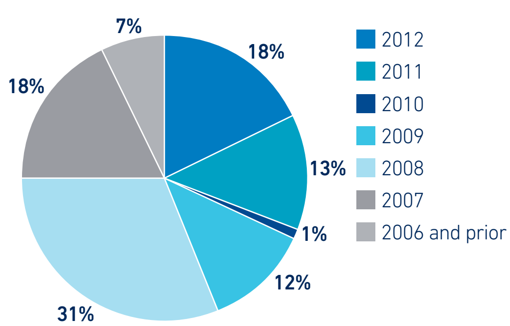


Chart 15: Direct portfolio by value
By vintage year as at 31 March 2012



Performance

Table 14: Returns from Private Equity – Developed Markets

year to 31 March	2012 £m	2011 £m
Realised profits over value on the disposal of investments	16	61
Unrealised (losses)/profits on the revaluation of investments	(405)	229
Portfolio income	126	121
Gross portfolio return	(263)	411
Gross portfolio return %	(8.9)%	16.7%
Fees receivable from external funds	31	39
Net carried interest	(5)	(32)
Operating expenses	(102)	(125)
Net portfolio return	(339)	293
Net portfolio return %	(11.5)%	11.9%

Returns from investments are achieved through a mix of capital realisations upon exit and returns of capital and portfolio income during the life of the investment. Returns to 3i Group are enhanced through management fees and carried interest from external funds, which we manage alongside 3i's own balance sheet commitments.

Gross portfolio return

The gross portfolio return in the year to 31 March 2012 for Developed Markets Private Equity was £(263) million (2011: £411 million), representing a loss on opening portfolio value of (8.9)% (2011: 16.7%). Net realised profits over opening book value of £16 million (2011: £61 million) were lower due to the higher proportion of investments held on an imminent sale basis at the beginning of the year. Net realised profits comprised profits of £50 million, offset by losses of £34 million. The losses related primarily to Radius, which accounted for £32 million of the total.

Portfolio income of £126 million (2011: £121 million) includes dividends received of £26 million. There was an unrealised loss of £(405) million for the year to 31 March 2012 (2011: £229 million). Further details are included in the Portfolio valuations section.

While UK and US stock markets had largely recovered to their March 2011 levels by the year end, European benchmarks remained down in the year to 31 March 2012. A proxy market constructed to be representative of the 3i portfolio was down 4% in the year.

Portfolio earnings

Earnings, weighted by 3i carrying value as at 31 March 2012, increased in the year by 8%. This performance was driven primarily by the investments made since the 3i Group rights issue in June 2009, which accounts for 32% of the portfolio. These companies demonstrated earnings growth in the year of 17% on a value weighted basis in calendar 2011.

Investments made in the 2006 to 2008 vintages (52% of the portfolio) delivered a lower value weighted earnings performance at 6%, albeit there were some strong performers within this group, for example, Mold-Masters, AES and Lekolar. Underperformance was driven by continued pressure on top line revenues and margins, particularly for those companies operating in the most challenged economic environments in Europe.

Business lines: Private Equity

Portfolio leverage

Average debt levels in the Developed Markets Private Equity portfolio have remained stable in the year at 3.5x (2011: 3.5x).

Three assets, with a total value of £nil at the beginning of the year, were in breach of their covenants at 31 March 2012 (2011: 6, 2010: 7, 2009: 16). Where covenants are in breach, 3i works hard with the companies' lenders to reach an adequate solution for all parties involved.

Covenant positions are monitored actively by our in-house banking advisory team, who work closely with the wider investment team and portfolio companies to mitigate and manage potentially challenging situations. This involves working with the small remaining number of companies in our portfolio that are highly leveraged, helping them to de-gear, not only by strengthening the balance sheet but also by driving operational improvements.

Portfolio valuations

The unrealised value reduction of £(405) million (2011: £229 million increase) in the year comprised £181 million (2011: £619 million) of positive value movements, net of value reductions of £(586) million (2011: £(390) million). The largest value reductions were primarily in southern Europe, due to the continued economic challenges facing companies in those regions.

At 31 March 2012, 88% (2011: 72%) of the Developed Markets portfolio was valued on an earnings basis. The average multiple used in the valuation of companies valued on an earnings basis was 8% lower than in the previous year. The weighted average EBITDA multiple pre-marketability discount was 8.1x (2011: 8.8x) and post discount 7.5x (2011: 8.1x).

Three of the largest positive valuations movements, Action (£35 million); Element (£28 million); and Hilite (£22 million), were from the 2011 and 2012 vintages. The largest reductions in value were in the Spanish portfolio (GES £(83) million and Memora £(45) million). The valuation in GES was reduced to nil at 31 March 2012 due to its performance outlook. This value movement is included within provisions for the year. The Memora reduction in value relates to the selection of a lower valuation multiple, reflecting the challenging market outlook in Spain.

Net portfolio return

Net portfolio return includes the impact of operating expenses, which fell by 18% in the year to 31 March 2012. These expenses are expected to fall further as a number of operational efficiencies, introduced in the year, begin to deliver significant cost savings and the full effect of redundancies is recognised. The net portfolio return for the year to 31 March 2012 was £(339) million (2011: £293 million).

Priorities for the year ahead

Given the uncertain market environment, particularly in Europe, the priority remains to ensure that portfolio earnings are robust and grow, and that we continue to improve the strategic positions of these businesses. In some cases, this will include making further acquisitions.

The team's core focus is to deliver strong returns, in the medium to longer term, over current book value. Where appropriate, portfolio companies will be realised where our value creation plan has been delivered to drive returns for shareholders and investors.

We will look to invest selectively in attractive new opportunities, in line with our investment strategy and fund mandates, building an attractive and increasingly diversified portfolio that is well positioned to deliver value growth.

Portfolio and performance – Developing Markets

Portfolio

As can be seen from the charts below, the Developing Markets Private Equity portfolio at 31 March 2012, is spread across our three regions in Asia. The launch in Brazil during the year resulted in our first investment in the region being signed in December. This $55 million investment, in Blue Interactive Group, is due to be completed shortly.

The portfolio is well diversified by sector, with a weighting towards Business and Financial Services. Portfolio value is weighted towards the post-2006 vintages.

The value of the 17 investments in the portfolio at 31 March 2012 was £354 million (2011: 17, £442 million).

Chart 16: Direct portfolio by number
By region as at 31 March 2012

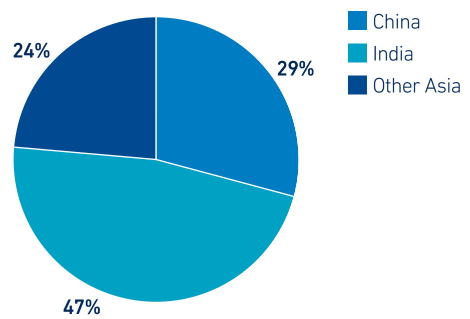


Chart 17: Direct portfolio by value
By region as at 31 March 2012

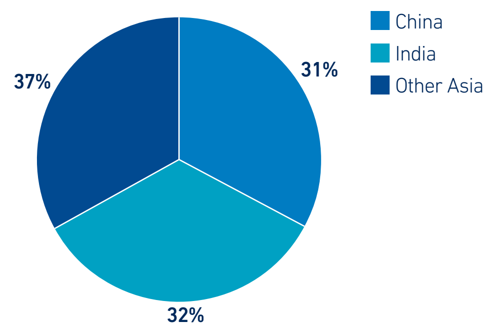


Chart 18: Direct portfolio by number
By sector as at 31 March 2012

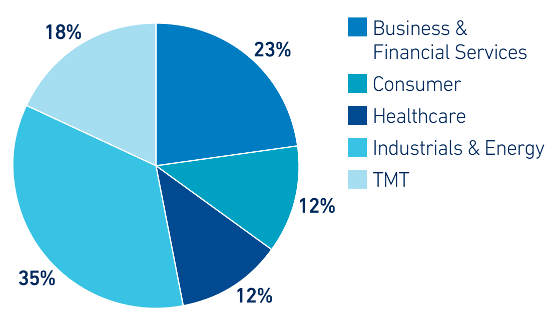


Chart 19: Direct portfolio by value
By sector as at 31 March 2012

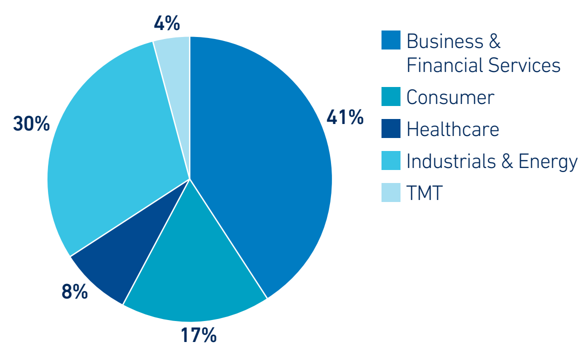


Chart 20: Direct portfolio by number
By vintage year as at 31 March 2012

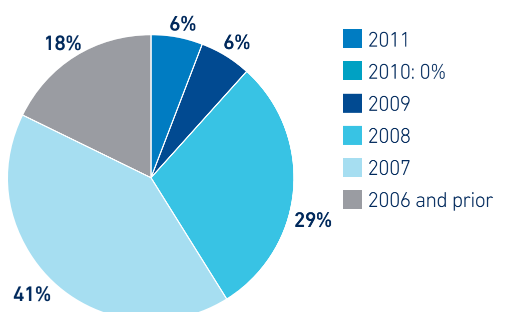
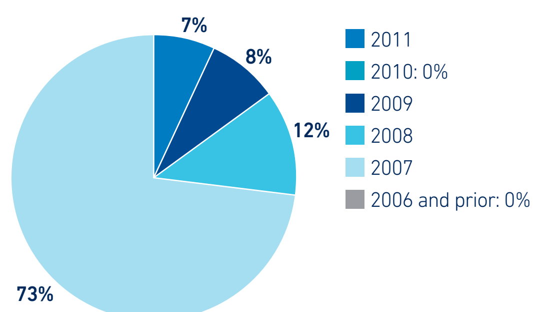


Chart 21: Direct portfolio by value
By vintage year as at 31 March 2012



Performance

Table 15: Returns from Private Equity – Developing Markets

year to 31 March	2012 £m	2011 £m
Realised profits over value on the disposal of investments	**1**	1
Unrealised (losses)/profits on the revaluation of investments	**(76)**	48
Portfolio income	**(1)**	2
Gross portfolio return	**(76)**	51
Gross portfolio return %	**(17.2)%**	12.4%
Fees receivable from external funds	**1**	1
Net carried interest	**5**	(3)
Operating expenses	**(25)**	(22)
Net portfolio return	**(95)**	27
Net portfolio return %	**(21.5)%**	6.6%

Gross portfolio return

The Developing Markets Private Equity gross portfolio return, a loss of £76 million (2011: £51 million profit), was substantially driven by an unrealised value reduction of £76 million (2011: £48 million increase).

A number of the portfolio companies performed well in the year. However, the South East Asia region had a challenging year with the value reduction in ACR, an Asian reinsurance business, accounting for a significant proportion of the unrealised loss for the Developing Markets Private Equity business.

Realised profits, and portfolio income from the Developing Markets Private Equity portfolio were £1 million (2011: £1 million) and a £1 million charge (2011: £2 million) respectively.

Portfolio earnings

Excluding ACR, which is not valued on an earnings basis, earnings weighted by 3i carrying value as at 31 March 2012 increased in the year by 28%.

We have seen good earnings growth in our Chinese and Indian portfolios, with earnings growth of 30% and 36% respectively on a value weighted basis. Within these portfolios, we have seen strong growth in companies in the Business Services and Industrials sectors. We believe that, as well as delivering earnings performance, these assets are also building strategic value which will benefit their ultimate exit multiples.

The South East Asian portfolio had a difficult year, with challenging market conditions. ACR faced an unprecedented year in terms of natural catastrophes in Asia. Three of the 10 largest insured losses of all time were recorded in Asia in 2011 and the Thai floods were particularly costly. However, because of the strength of the business and its differentiated position within its market, it was able to secure an attractive quota sharing arrangement with Berkshire Hathaway and, post year end, the Japanese trading group, Marubeni, agreed to make a substantial investment in the business. AM Best and S&P have confirmed ACR's A- rating and initial trading in the first months of 2012 has been in line with budget, with both investment and underwriting profits being delivered. The net effect of these events was a reduction of £29 million in the value of ACR in the period.

Portfolio leverage

In line with our strategy for investing in developing markets, leverage within the portfolio is low. There were two covenant breaches in portfolio companies valued at nil at 31 March 2011 and 31 March 2012.

Portfolio valuations

The value reduction of £(76) million in the year (2011: £48 million increase), comprised £20 million (2011: £85 million) of positive value movements, net of value reductions of £96 million (2011: £37 million), including ACR at £29 million.

At 31 March 2012, 37% (2011: 29%) of the Developing Markets portfolio was valued on an earnings basis; 6% (2011: 9%) on a DCF basis; and the remainder, 57% (2011: 62%), on other valuation bases such as industry metrics or sum of constituent parts (where different divisions are valued on a different basis). The average EBITDA multiple used, before applying a marketability discount, on those companies valued on an earnings basis using EBITDA at the start and end of the year, fell 4% from 9.9x to 9.5x. The largest value movements in the year related to assets valued on industry metrics, or sum of the parts methodologies, notably, ACR.

Net portfolio return

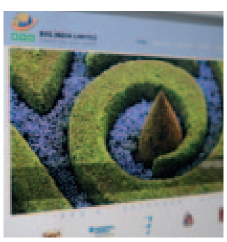
A net portfolio return of (22)% (2011: 7%) reflects the unrealised losses mentioned above. Costs increased in the year due to the expansion of the business into Brazil. Net carried interest income reflects the reversal of carried interest liabilities from prior years, following the reduction in value of a number of assets.

Priorities for the year ahead

We have strengthened our teams in Asia and will maintain our focus on actively managing the current portfolio.

In Brazil, a team was established in São Paulo and an Advisory Board was formed. Having developed its market approach, the team will help to develop 3i's presence in the growing Brazilian private equity market. It will do this by making investments and by supporting portfolio companies elsewhere in the world with the development of their business in the region. They have signed their first deal for $55 million, in Blue Interactive, a cable television provider, which is expected to complete shortly.

Case study **BVG**



Established in 1997, BVG is now one of India's largest facilities management services companies. The company provides a wide range of services, including mechanised housekeeping, landscaping and gardening, logistics and transportation and electrical and mechanical services.

Leveraging our credentials in the Business Services sector and local market access, 3i invested £21 million in BVG in January 2011 in a proprietary transaction originated by its Indian team.

BVG has over 300 clients in India, across a range of industrial and service sectors. These include some of the world's largest international companies, as well as leading public sector entities such as the Indian Parliament and the Indian Railways.

The investment case was predicated upon backing a market leader in a high growth market with the opportunity to leverage 3i's experience in similar businesses in other parts of the world to create value. The low level of outsourcing in India has enabled BVG to grow EBITDA and profit after tax at a compound annual growth rate of over 40% in the three years prior to 3i's investment. This trend has continued since 3i invested.

3i has worked closely with the company to strengthen its financial reporting and controls. We are also supporting the management on a series of initiatives, including strengthening systems and processes, improving working capital management and strengthening the sales team.

Business lines: Infrastructure

The Infrastructure business line currently invests principally in Europe and in India through two investment vehicles.

- 3i Infrastructure plc ("3iN"), an infrastructure investment company listed in London (in which 3i owns a 34% stake);
- the 3i India Infrastructure Fund (the "India Fund"), a limited partnership fund focused on investing in Indian infrastructure (to which 3i and 3iN committed $250 million each).

Returns for 3i from the Infrastructure business line are generated from:

- dividend income and capital growth from its 34% holding in 3iN;
- capital returns from its investment in the 3i India Infrastructure Fund; and
- advisory and management fees from the two vehicles.

Business model

The Infrastructure investment team seeks to create value for 3iN and the India Fund through a three-step process:

1. Rigorous approach to investment

It originates new investment opportunities by building proprietary knowledge and networks in target sectors and geographies and applies rigorous selection criteria to choose the best investments.

2. Best-in-class portfolio management

Following investment, it engages with the management teams of portfolio companies to deliver improvements in operational and financial performance and to monitor performance to ensure that any issues are identified quickly.

3iN and the India Fund are represented on the boards of their equity investments.

3. Focus on long-term value creation

The team focuses on creating and maintaining value over the long term by supporting and encouraging the management teams of portfolio companies to devise and implement business strategies that deliver value accretion over the longer term. This requires an in-depth knowledge of market and sector dynamics, as well as an understanding of the long-term value drivers for each of the businesses.

The investments made by the team are categorised as shown in the diagram below. As shown in the diagram, returns available from investments targeted by the infrastructure team typically range from 8% to 15% or greater, depending on the risks associated with the investment. Yields generated from the investments also vary, depending, among other factors, on the stage of development of the businesses (eg in construction versus mature).

3iN aims to deliver a 12% net return per annum when fully invested, of which 5% is delivered to shareholders through dividends. It has exposure across the spectrum but, in line with its objectives, has a strong focus on core infrastructure (which would include businesses in the regulated utilities and transportation sectors in the developed world), with some investments in social infrastructure (eg hospitals and schools procured through PFI/PPP-type schemes) and in hybrid infrastructure through its commitment to the India Fund (described in more detail below).

The investments made by the India Fund can be categorised as hybrid infrastructure: these tend to have higher market or geopolitical risk. Accordingly, the India Fund's return objectives are higher.

Infrastructure market characteristics

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

Yield ← → **Capital growth**

Portfolio and performance

3i Infrastructure plc

3i has a 34% holding in 3iN, an investment company listed on the London Stock Exchange and a component of the FTSE 250. At 31 March 2012, 3iN had a market capitalisation of £1,097 million.

3iN targets a 12% total return over the long term, of which 5% is returned to shareholders through dividends. Further information on 3iN is available on its own dedicated website, www.3i-infrastructure.com.

3i acts as investment adviser to 3iN and receives an annual advisory fee of 1.5% of the invested capital (excluding cash balances), declining to 1.25% for any portion of assets held for more than five years. 3i can also receive an annual performance fee of 20% on the growth in net asset value, before distributions, over an 8% hurdle calculated each year.

3iN has a $250 million commitment to the India Fund and participated in the investments completed in the year by the Fund, described on page 42.

3iN announced its annual results on 9 May 2012. The total return for the year to 31 March 2012 was £56 million, or 5.6% of average shareholders' equity (2011: £86 million, 9.2%). The return for the year to 31 March 2012 was lower compared to the previous year, as strong returns from 3iN's European investments were partly offset by declines in the mark-to-market valuation of Adani Power Limited ("Adani Power"), held through the India Fund, and foreign exchange losses sustained in the India Fund.

Chart 22: 3iN – portfolio by category
as at 31 March 2012

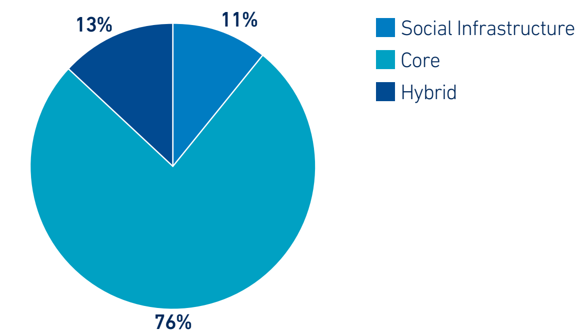
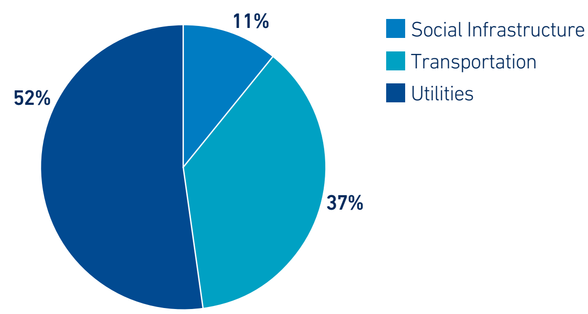


Chart 23: 3iN – portfolio by sector
as at 31 March 2012



Case study **LNI**

Transaction structure

Lakeside Network Investments ("LNI") was purchased from Vattenfall AB in January 2012, for an enterprise value of approximately €1.54 billion. It holds 100% of two companies: LNI Verkko Oy ("LNI Verkko"), and LNI Lämpö Oy ("LNI Lämpö").

LNI was acquired by a consortium comprising:

– 3i Infrastructure plc (39% share) and 3i (6% share)

– GS Infrastructure Partners (45% share)

– Ilmarinen Mutual Pension Insurance Company (10% share)

The businesses

LNI Verkko (~85% of value) is the second-largest electricity distribution business in Finland, with a 12% market share, and serves 400,000 customers in South West Finland. The business is regulated on a four-year cycle, delivering a set return on its Regulated Asset Base.

LNI Lämpö (~15% of value) operates 17 local district heating networks, with strong market positions in their areas. District heating, which involves the pumping of hot water for heating and general purposes directly into homes from central hubs, is not regulated in Finland.

Investment case

1. Stable and transparent regulatory environment for LNI Verkko

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.

2. Profitable, with inflation linkage and attractive yield

LNI generates high EBITDA margins, supporting a strong yield over the long term. Returns from LNI Verkko are linked to inflation, and LNI Lämpö has generally been able to increase its charges at least in line with inflation.

3. Attractive market, with opportunities for growth

Finland is among the largest per capita electricity consumers in Europe, with demand expected to grow steadily. LNI Verkko may be able to leverage its operational efficiencies and technical superiority to create consolidation opportunities in its market.

Business lines: Infrastructure

3iN has built a strong track record over its five-year history, delivering an annualised growth in returns to shareholders of 9.4%, and a total annualised asset IRR of 16%, underpinned by strong cash generation in the portfolio through income receipts, asset sales and capital returns.

The core infrastructure investments represented 76% of total portfolio value at 31 March 2012. At that date, 3iN also had 11% of its portfolio invested in social infrastructure investments, providing support for the delivery of its yield objective, and 13% of its portfolio invested in hybrid infrastructure through the India Fund, providing opportunities for capital growth over time.

3iN completed a significant investment in LNI in the year. This transaction was announced in December 2011 and is profiled on page 41.

3i India Infrastructure Fund

The India Fund is a $1.2 billion Limited Partnership fund, with a particular focus on ports, airports, roads and power assets. 3i and 3iN each have a $250 million commitment to the Fund.

The India Fund closed in 2008 and, as at 31 March 2012, was 70% invested. Since inception, the Fund has generated a gross money multiple on invested cash of 1.21x in rupee terms, and 1.05x in US dollar terms.

During the year, the performance of the India Fund was impacted negatively by mark-to-market declines in the valuation of its holding in Adani Power Limited ("Adani Power"), reflecting broader declines in the Indian stock markets, as well as by foreign exchange losses, as the US dollar appreciated by 14% against the Indian rupee.

3i earns an annual management fee and carry above a performance hurdle. During the year, the India Fund completed one follow-on investment in GVK Energy Limited. 3i's share of this investment was £8 million. The fundamentals of the power sector in India continue to support long-term investment despite broader fuel supply issues, as the imbalances between power demand and supply in India are expected to continue in the next decade.

Other infrastructure assets

As detailed above, in January 2012 3i Group made a £28 million direct investment in a 6% holding in LNI. This holding was valued at £29 million at 31 March 2012.

3i also has other direct investments in infrastructure, including a small residual holding in Anglian Water Group, and an investment in Dalmore Capital, an infrastructure asset management business focused on the secondary PFI market, which were valued at £7 million and £1 million respectively at 31 March 2012.

Chart 24: India fund – portfolio split by sector
as at 31 March 2012

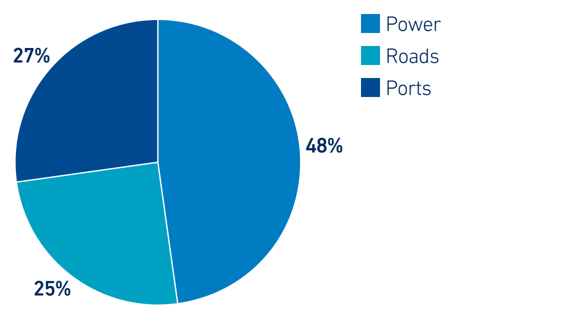
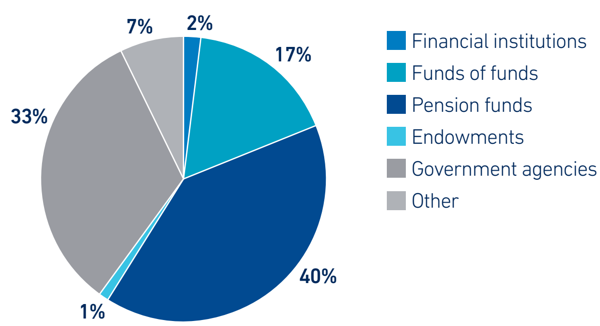


Chart 25: India fund – investor base by type of investor
as at 31 March 2012



Infrastructure performance

Table 16: Returns from Infrastructure

year to 31 March	2012 £m	2011 £m
Realised profits over value on the disposal of investments	–	–
Unrealised (losses)/profits on the revaluation of investments	(7)	29
Portfolio income	18	16
Gross portfolio return	**11**	45
Gross portfolio return %	**2.4%**	11.1%
Fees receivable from external funds	25	25
Net carried interest	(6)	(2)
Operating expenses	(17)	(23)
Net portfolio return	**13**	45
Net portfolio return %	**2.8%**	11.1%

The infrastructure business line generated a gross portfolio return of £11 million in the year to 31 March 2012 (2011: £45 million). This was driven by portfolio income of £18 million (2011: £16 million) and an unrealised value loss of £7 million (2011: £29 million gain), as the unrealised value gain of £22 million from the Group's holding in 3iN (2011: £21 million) was more than offset by an unrealised value loss of £30 million from the holding in the 3i India Infrastructure Fund (2011: £8 million gain).

During the year to 31 March 2012, 3iN shares appreciated by 6.2% (against a decline of 2.1% for the FTSE All-Share), supported by the continued robust operational performance and income generation from the underlying European portfolio.

The valuation of the Group's holding in the India Fund was impacted by a mark-to-market reduction in the valuation of Adani Power, the India Fund's largest investment, as well as by foreign exchange losses. Shares in Adani Power declined by 39% in the year to 31 March 2012 (2011: (2.8)%). In addition, the US dollar appreciated by 14% against the Indian rupee in the year, resulting in foreign exchange losses for the US dollar denominated India Fund, whose exposure to the Indian rupee is unhedged.

The investments in the India Fund continue to make good operational progress, with steady advances in the build-out of their facilities.

Portfolio income grew year-on-year, principally as a result of the increase in the 3iN dividend. In addition, the Group's exercise of 3iN warrants in June 2011 resulted in a £32.5 million increase in its holding of 3iN shares, all of which received 3iN's dividend payments.

Fees receivable from 3iN and the 3i India Infrastructure Fund amounted to £25 million (2011: £25 million). Fees remained flat in the year, as the increase in the advisory fee from 3iN, following the growth in its portfolio, was offset by the fact that no performance fees were receivable from 3iN for the year (2011: £3 million).

Priorities for the year ahead

We will continue to strengthen our position as a leading participant in the infrastructure market through the ongoing investment of our advised and managed vehicles in a portfolio of strong businesses, which can continue to generate attractive returns for shareholders and limited partners.

We will maintain a rigorous investment approach, using our proprietary sector knowledge and our broad network of contacts in our chosen sectors and geographies to originate transactions that contribute to the delivery of the target return objectives. This will be key to positioning the business line and 3iN for future fundraisings.

Seeking to generate attractive returns from the existing portfolio will also remain a priority for the Infrastructure team. The businesses in the two vehicles are performing well. The team's portfolio management expertise, as well as the Group's resources, will be leveraged to continue to drive value from those investments.

The opportunity for 3i is to grow the funds it manages or advises and to raise new funds, generating increased fee income.

Business lines: Debt Management

3i Group first established a debt management capability in October 2007 to capitalise on the opportunity to invest in non-investment grade debt of European businesses. Investments were initially made through a debt warehouse facility. In 2011, and in line with our strategy of growing in areas consistent with our investment expertise, a new distinct business line, Debt Management, was formed following the acquisition of Mizuho Investment Management (UK) Ltd ("MIM") in February 2011. During 2011, the original 3i Debt Warehouse was realised, generating an annualised return of c.13.5%.

Business model

Debt Management currently manages and/or advises 10 funds with total assets under management of £3.4 billion as at 31 March 2012.

- Harvest I – V (five senior debt focused Collateralised Loan Obligations "CLOs");
- Windmill I (managed account);
- Vintage I & II (private equity funds of funds);
- Friday Street (dedicated mezzanine fund); and
- Palace Street I (Credit Opportunities Fund)

The main driver of returns for the Debt Management business line is fees earned from managing the underlying Collateralised Loan Obligation ("CLO") and debt funds.

The fees that 3i Debt Management receives are structured to align the interests of the portfolio manager with those of the underlying debt and equity investors. The fee structure provides the portfolio manager with a modest senior management fee, with the remainder of the management fee performance related. In addition to the above fee structure, some of the funds have incentive fees which are typically paid only after the investors have received a stated return, after which the portfolio manager receives a percentage of the investment returns.

The Debt Management team, comprising 30 professionals, have strong primary market syndication relationships and well established private equity sponsor relationships. This ensures that a high proportion of opportunities in the market are seen. An in-depth credit analysis is undertaken for each opportunity.

Ongoing portfolio management is a critical area of focus for the team and is central to driving fund returns. Analysts are arranged by sector and each investment has a dedicated analyst who monitors performance to ensure that any issues are identified early.

The objective is that as new funds are launched in Debt Management, the Group aims to have up to 10% of assets under management funded by 3i. As at 31 March 2012, this percentage was 1%.

Portfolio and performance

As can be seen from the charts below, the CLO funds and Palace Street I Fund are well diversified by sector, with a concentration in Europe by geography. Within Europe, there is considerable diversity across 14 countries. The private equity fund of funds portfolio is excluded from the analysis below.

Chart 26: Portfolio by number by sector
as at 31 March 2012

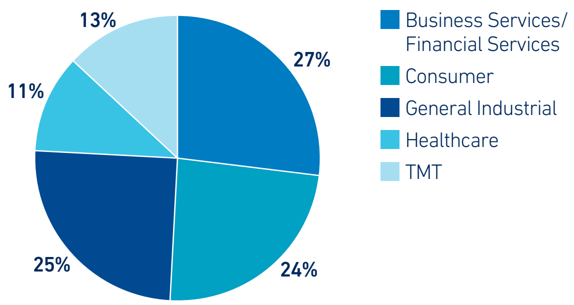


Chart 27: Portfolio by value by sector
as at 31 March 2012

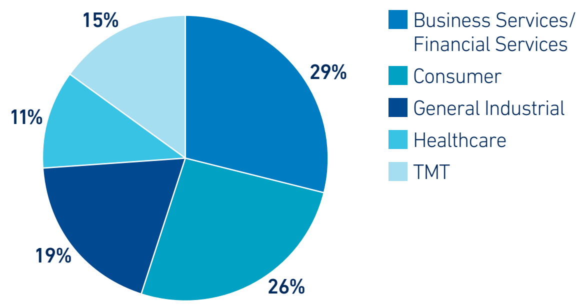


Chart 28: Portfolio by number by geography
as at 31 March 2012

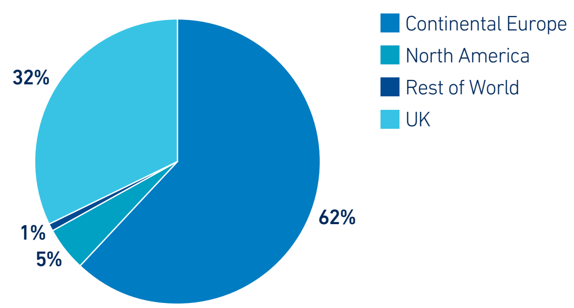
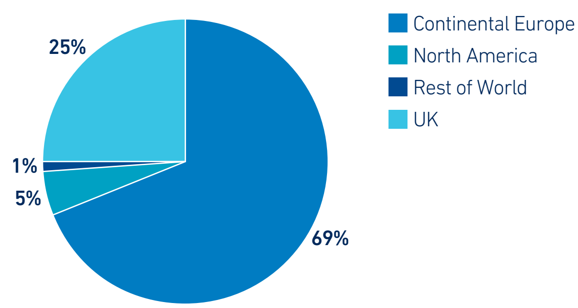


Chart 29: Portfolio by value by geography
as at 31 March 2012



Business lines: Debt Management

Table 17: Returns from Debt Management

year to 31 March	2012 £m	2011 £m
Realised profits over value on the disposal of investments	**1**	24
Unrealised (losses)/profits on the revaluation of investments	**(3)**	8
Portfolio income	**3**	7
Gross portfolio return	**1**	39
Gross portfolio return %	**7.1%**	52.0%
Fees receivable from external funds	**32**	2
Net carried interest	**1**	(1)
Operating expenses	**(31)**	(5)
Net portfolio return	**3**	35
Net portfolio return %	**21.4%**	46.7%

The Debt Management business line generated a gross portfolio return of £1 million in the year to 31 March 2012 (2011: £39 million). The prior year gross portfolio return figure was driven by the realisation of the 2007 3i Debt Warehouse. Debt Management's gross portfolio return reflects the performance of Palace Street I and the value movement and associated income resulting from the equity holdings owned by the Group in the underlying CLOs, managed by the Debt Management team.

The broker quotes used to value these holdings fell in value during the period, creating a value decrease of £3 million in the year to 31 March 2012 (2011: £8 million increase). This value loss was offset by £1 million of interest income from the portfolio within Palace Street I and £2 million in equity distribution on our holdings in the CLO funds.

The main driver of net portfolio returns for the Debt Management business line is fees earned from managing the underlying Collateralised Loan Obligation ("CLO") and debt funds. Fees receivable amounted to £32 million (2011: £2 million). Fee income was strong as a result of a robust performance in the underlying funds since acquisition – all six CLOs are currently paying subordinated fees versus one at the time of the acquisition of MIM.

Operating expenses increased significantly in the year to £31 million (2011: £5 million), following the acquisition of MIM and also reflects the inclusion of £4 million of amortisation costs relating to the acquisition.

The underlying profitability of the Debt Management business was £9 million, excluding amortisation and other acquisition accounting adjustments.

New strategic initiatives include Palace Street I, which was launched in August 2011. Rob Reynolds (ex CIO Resource Europe) joined the Debt Management team in September 2011 as the CIO of Palace Street I. The Fund was launched with a 3i Group (€50 million commitment), with an investment mandate to target European bonds, loans and floating rate notes. Since its launch, Palace Street I has generated an annualised return of 9%, including paying a 5.7% (8.8% annualised) interim dividend to 3i on its equity investment.

In addition, following on from the success of Vintage I (a private equity fund of funds vehicle launched in March 2007 with a fund multiple of 4.3x as at 31 March 2012), a successor fund, Vintage II, was launched in November 2011 and had its final close in March 2012. Vintage II, is a $400 million fund primarily investing in US LP funds.

Priorities for the year ahead

We intend to strengthen our position as a leading participant in the debt management market, through active portfolio management, the raising of new funds and growth opportunities through selective acquisitions.

By maintaining a rigorous investment approach, through the ongoing investment of our funds in a diversified portfolio of assets, we aim to generate attractive returns for our shareholders and limited partners.

In addition, our strong brand and robust track record provides 3i the opportunity to raise new funds through product diversification, generating increased fee income. The launch of Palace Street I and Vintage II demonstrates this capacity.

We will also continue to actively consider acquisition opportunities and making strategic acquisitions both in Europe and the US as we look to develop a global debt management platform.

Financial review

Returns

In summary, gross portfolio return represents 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 factors.

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

Table 18: Total return

year to 31 March	2012 £m	2011 £m
Realised profits over value on disposal of investments	23	124
Unrealised (losses)/profits on revaluation of investments	(498)	325
Portfolio income		
Dividends	47	41
Income from loans and receivables	95	110
Net fees receivable/(payable)	4	1
Gross portfolio return	(329)	601
Gross portfolio return on opening portfolio value	(8.2)%	17.1%
Fees receivable from external funds	89	67
Carried interest receivable from external funds	(15)	25
Carried interest and performance fees payable	10	(63)
Operating expenses	(180)	(181)
Net portfolio return	(425)	449
Net portfolio return on opening portfolio value	(10.6)%	12.8%
Net interest payable	(91)	(127)
Movement in the fair value of derivatives	(19)	(1)
Net foreign exchange movements	(49)	(17)
Pension actuarial (loss)/gain	(67)	20
Other (including taxes)	(5)	–
Total comprehensive income ("Total return")	(656)	324
Total return on opening shareholders' funds	(19.5)%	10.6%

Gross portfolio return

Given the proportion of balance sheet capital allocated to Private Equity, this business line is the main driver of gross portfolio return for the Group.

Realised profits

Realised profits at £23 million (2011: £124 million) in the year to 31 March 2012 were lower than the prior year. A lower uplift over opening value of 3% (2011: 26%) reflects the fact that key realisations in the year were valued on an imminent sale basis at 31 March 2011. Exits for the largest realisations were achieved at 2.9x original cost.

Unrealised value movements

Table 19: Unrealised (losses)/profits on revaluation of investments

year to 31 March	2012 £m	2011 £m
Private Equity, Infrastructure and non-core		
Earnings and multiples based valuations[1]		
Equity – Earnings multiples	**(130)**	(76)
– Earnings	**23**	295
Loans – Impairments (earnings basis)	**(157)**	(201)
Other bases		
Provisions	**(138)**	(71)
Uplift to imminent sale	**–**	240
Discounted Cash Flow	**(1)**	54
Loans – Impairments (other basis)	**(21)**	5
Other movements on unquoted investments	**(51)**	48
Quoted portfolio	**(20)**	23
Debt Management		
Broker quotes	**(3)**	8
Total	**(498)**	325

1 The split between multiples and earnings is derived by applying the closing multiples to the opening valuations.

Earnings multiple movements

The continued uncertainty in the year to 31 March 2012 regarding the euro debt crisis and global growth expectations impacted the valuation of the portfolio. Earnings multiples used to value the portfolio decreased by 7% in the year to 31 March 2012 (2011: 7% decrease). This led to a value reduction of £130 million in the equity value of the portfolio (2011: £76 million reduction).

The average EBITDA multiple used to value the portfolio on an earnings basis was 8.2x pre-marketability discount, (2011: 8.8x) and 7.5x post discount (2011: 7.8x). This remains substantially below the FTSE 250 reference of 9.6x at 31 March 2012.

Earnings movements

When valuing a portfolio investment on an earnings basis, the earnings applied are based on the management accounts earnings for the 12 months to the quarter end preceding the reporting period, adjusted on a pro forma basis for acquisitions, disposals and non-recurring items. If the portfolio company's current year forecast is lower, or more recent data provides a more reliable picture of maintainable earnings performance, then these will be used instead.

The earnings used to value the portfolio at 31 March 2012 were 90% management accounts (2011: 84%), 8% current year forecast accounts (2011: 12%) and 2% audited accounts (2011: 4%).

There was a 2% increase in aggregate earnings used for valuations in the portfolio valued on an earnings basis in the year to 31 March 2012, which led to an increase in equity value of £23 million (2011: £295 million).

The earnings of the portfolio as a whole, increased by 9% on a value weighted basis.

Table 20: Movement in earnings and multiples[1]

	2012		2011	
year to 31 March	**% change**	**Equity value impact £m**	% change	Equity value impact £m
Earnings	**2%**	**23**	13%	295
Multiples	**(7)%**	**(130)**	(7)%	(76)

1 For those companies valued on an earnings basis.

Loan impairments

Where the net attributable enterprise value of a portfolio company is less than the carrying value of 3i's shareholder loans, the shortfall recognised is classified as an impairment. The total impairments for the year to 31 March 2012 were £(178) million (2011: £(196) million), of which £(157) million (2011: £(201) million) related to assets valued on an earnings basis. These shortfalls were driven by the multiple and earnings movements noted above.

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 £(138) million provisions for the year to 31 March 2012 (2011: £(71) million) relate to six portfolio companies, representing a range of sectors and geographies. The provisions for the year to 31 March 2012 account for 3% of the opening portfolio (2011: 2%).

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 2012, there were no material portfolio companies in an advanced sales process (2011: £240 million).

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 2012, there were 11 portfolio companies valued using the DCF valuations basis, the majority of which relate to the Group's investment in the 3i India Infrastructure Fund. These assets contributed to a reduction in value of £(1) million in the year to 31 March 2012 (2011: £54 million).

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 "other" valuation basis category includes Asia re-insurance business, ACR, which contributed to the total "other" reduction in value of £(51) million in the year to 31 March 2012 (2011: £48 million).

Quoted portfolio
The quoted portfolio at £535 million now represents 17% (2011: 10%) of the Group's total portfolio, which has increased from £405 million at 31 March 2011. The Group's 34% investment in 3i Infrastructure plc represents the majority of the quoted portfolio. 3i Infrastructure plc has had a 6% increase in share price in the year, increasing in value by £22 million. However, this was offset by the remaining quoted portfolio reducing in value by £(42) million, resulting in a net reduction in the quoted portfolio value of £(20) million in the year to 31 March 2012 (2011: £23 million).

Broker quotes
The Debt Management business line has investments in a number of the CLOs, which the Group manages as well as the Credit Opportunities Fund, Palace Street I, which commenced investment in the year. These assets are valued using broker quotes, which resulted in a £(3) million reduction in value in the year (2011: £8 million).

Table 21: Proportion of portfolio value by valuation basis

as at 31 March 2012	%
Earnings	**67**
Imminent sale	**–**
Quoted	**17**
Discounted Cash Flow	**8**
Other	**7**
Broker quotes	**1**

Portfolio income

Table 22: Portfolio income

year to 31 March	2012 £m	2011 £m
Dividends	**47**	41
Income from loans and receivables	**95**	110
Net fees receivable/(payable)	**4**	1
Portfolio income	**146**	152
Portfolio income/opening portfolio ("income yield")	**3.7%**	4.3%

Income from the portfolio was £146 million in the year to 31 March 2012 (2011: £152 million). Dividends of £47 million were received (2011: £41 million), including £18 million from 3i Infrastructure plc and £19 million from Quintiles, a US Private Equity investment. Interest income from loans was £95 million (2011: £110 million), including £1 million from Palace Street I. A further £4 million in net fees was received in the year (2011: £1 million).

Portfolio income received as cash in the year was £60 million (2011: £57 million), reflecting the relatively high proportion of capitalised interest generated by the Private Equity portfolio.

Net portfolio return

Table 23: Net portfolio return

	2012 £m	2011 £m
Gross portfolio return	**(329)**	601
Fees receivable from external funds	**89**	67
Net carried interest and performance fees payable	**(5)**	(38)
Operating expenses	**(180)**	(181)
Net portfolio return	**(425)**	449

Fees receivable from external funds

Fees earned from external funds in the year to 31 March 2012 of £89 million have increased (2011: £67 million). The effect of the acquisition of MIM by the Debt Management business line has accounted for the majority of the increase with an improved performance in the underlying CLO funds generating £32 million of fees (2011: £2 million, while under 3i Group ownership).

The remaining fees in the year comprised £32 million (2011: £40 million) from our managed private equity funds and £25 million (2011: £25 million) receivable from advisory and management services to 3i Infrastructure plc and the 3i India Infrastructure Fund.

The fees received from our managed private equity funds reduced in the second half of the year as Eurofund V came to the end of its investing period.

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 broadly neutral with a net payable amount of £5 million (2011: £38 million payable). The portfolio value movement in the period has been mostly recognised in those carried interest funds where the performance hurdle has not been achieved. As a result, there was a £5 million charge in the year to 31 March 2012.

Operating expenses

Table 24: Cost efficiency

year to 31 March	2012 £m	2011 £m
Operating expenses	**180**	181
Fees receivable from external funds	**(89)**	(67)
Net operating expenses	**91**	114
Net operating expenses/opening portfolio ("cost efficiency")	**2.3%**	3.2%
Operating expenses/AUM[1]	**1.5%**	1.8%

1 Weighted average AUM.

The Group continued its focus on reducing operating costs. The restructuring of the European Private Equity team during the year included significant rationalisation of the teams in the UK and Spain and the closure of the Italian office. Furthermore, a number of initiatives have been implemented in order to ensure the Group's professional services functions are appropriately sized for the business.

Operating expenses were marginally lower at £180 million (2011: £181 million). Excluding the costs of the Debt Management business, the newly established Private Equity business in Brazil, and the restructuring and one-off costs involved in organisational change, underlying operating expenses in the year have fallen by 16% to £148 million (2011: £177 million). Headcount at the end of the year was 435 (2011: 491) and reflects the changes in both the Private Equity business and the professional services functions.

Net operating expenses continued to improve at £91 million (2011: £114 million), helped by the performance of the Debt Management business line increasing fees in the year to 31 March 2012. This is also reflected in the improvement in both the cost efficiency metric (net operating expenses/opening portfolio) at 2.3% (2011: 3.2%) and operating expenses per AUM of 1.5% (2011: 1.8%).

Total return

Net interest payable

Net interest payable decreased in the year to £91 million (2011: £127 million). This improvement was driven by the reduction in gross debt, following the maturing of the remainder of the convertible bond in May 2011 and repurchases and repayments of other debt balances in the year.

Interest payable reduced to £103 million (2011: £139 million) in the year to 31 March 2012. Interest receivable was in line with the prior year at £12 million (2011: £12 million), with interest rates continuing to be at record lows.

Derivative movements

The Group uses foreign exchange contracts and interest rate swaps as part of its general hedging programme. There was a £19 million loss recognised from the fair value movement of the derivatives during the year (2011: £1 million loss), principally relating to long-term legacy interest rate swaps.

Net foreign exchange movements

The Group maintained its partial hedging policy in the year, using core currency borrowings and derivatives as appropriate. This resulted in 44% of the foreign currency portfolio being hedged by borrowings at 31 March 2012, with a further 25% hedged using derivatives. The overall impact of foreign exchange on total return was a charge of £49 million in the year to 31 March 2012 (2011: £17 million). This was primarily driven by the weakening of both the euro (5%) and Indian rupee (8%) in the year.

Pensions

The Group's UK-defined benefit pension scheme was closed to new members in April 2006 and to future accrual in April 2011. In the year to 31 March 2012 there was an IAS 19 pension actuarial loss of £66 million (2011: £20 million profit) arising from the UK pension scheme and £1 million on non-UK defined benefit pension schemes. This loss reflected the negative impact of the financial markets, predominantly due to a decrease in the discount rate increasing the scheme liabilities.

The latest triennial funding valuation was agreed in September 2011, and resulted in the Group committing to fund £72 million in the year to 31 March 2012 and a further £36 million in April 2012. This second payment has been factored into the calculation of the IAS 19 pension actuarial loss at 31 March 2012. The Group also entered into a contingent asset arrangement with the Trustees at no cash or strategic cost to the Group, allowing flexibility to implement a longer term de-risking strategy. Further details of these arrangements are included in note 32 to the accounts.

Portfolio value

Portfolio assets directly owned by the Group

Table 25: Portfolio value movement by business line

	Opening portfolio value 1 April 2011 £m	Investment £m	Value disposed £m	Unrealised value movement £m	Other movement[1] £m	**Closing portfolio value 31 March 2012 £m**
Business lines						
Private Equity						
Developed Markets	2,952	522	(724)	(405)	(168)	**2,177**
Developing Markets	442	18	(15)	(76)	(15)	**354**
Debt Management	14	36	1	(3)	(6)	**42**
Infrastructure	464	70	(1)	(7)	2	**528**
	3,872	646	(739)	(491)	(187)	**3,101**
Non-core activities	121	–	(9)	(7)	(2)	**103**
Total	3,993	646	(748)	(498)	(189)	**3,204**

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

Balance sheet

Table 26: Group balance sheet

as at 31 March	2012	2011
Shareholders' funds	**£2,627m**	£3,357m
Gross debt	**£1,623m**	£2,043m
Net debt	**£464m**	£522m
Gearing	**18%**	16%
Diluted net asset value per share	**£2.79**	£3.51

Gearing and borrowings

The Group has maintained its conservative balance sheet approach with gross debt reducing by 21% in the year to £1,623 million (2011: £2,043 million). Gross debt has reduced primarily due to the repayment of £139 million of the convertible bond, which matured in May 2011, and repurchases of €154 million of the €500 million floating rate note in the year. £278 million remained outstanding as at 31 March 2012. Repayment of a $50 million bond and a £67 million banking facility also took place in the year.

Net debt at £464 million remained within our self-imposed £1 billion limit (2011: £522 million). Gearing marginally increased to 18% in the year (2011: 16%) as a result of the reduction in shareholders' funds to £2,627 million (2011: £3,357 million) following the negative total return noted in the year to 31 March 2012.

Liquidity

Liquidity reduced in the year to £1,653 million (2011: £1,846 million). This comprised cash and deposits of £1,159 million (2011: £1,521 million) and undrawn facilities of £494 million (2011: £325 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.

Undrawn facilities available to the Group have increased following the successful and early refinancing of the £300 million multi-currency facility to £450 million, extending maturity from October 2012 to June 2016, partially offset by the refinancing of the £100 million multi-currency facility to £50 million with maturity extended from October 2012 to April 2016.

Diluted NAV

The diluted NAV per share at 31 March 2012 was £2.79 (2011: £3.51). This was driven by the negative total return in the year of £(656) million (2011: £324 million), as well as dividend payments in the year of £49 million (2011: £30 million).

Risk

A description of our risk management framework, a review of key risks, as well as our approach to risk mitigation.

Risk

This section provides a review of the evolution and management of 3i's key risks during the year, together with an overview of the main elements of 3i's risk governance framework. This is followed by a description of the main inherent risk factors. Further details on the management of key risks, and related results and outcomes, can be found in the relevant section on risk factors.

Review of risks

External

The key external risks affecting 3i over the course of the financial year remain centred on the impact of the continuing difficult macroeconomic and market conditions, especially in Europe.

These uncertain conditions impact 3i's operating environment in a number of ways. For example, fundraising conditions are challenging for the private equity industry as a whole, as recent fund vintages have underperformed and investors have become more selective. General M&A activity remains relatively subdued, partly reflecting companies' preference for high levels of liquidity over investment. Finally, there is still a significant private equity funding overhang which continues to underpin high prices for transactions.

Economic conditions also present varying degrees of risk for the operations and growth of 3i's portfolio companies and therefore overall performance and valuations, as described under Investment risk on the following page.

Key factors include the risk of below trend economic growth, in the context of government deficit reduction programmes, and the impact and uncertainties of sovereign debt refinancing on the wider credit markets. The majority of European financing transactions were structured at the peak of the market in 2006 and 2007, with tenors of between seven and nine years. This means that refinancing requirements will increase substantially, peaking in 2013 and 2014. The market, therefore, is likely to become increasingly focused on this risk in the run up to 2013.

At this stage, it is difficult to predict how this will unfold, particularly given the wider fundamental economic uncertainties, fragile confidence, and refinancing requirements for both corporate and sovereign debt. 3i has been managing this risk actively and, as can be seen from the chart on page 33, the debt repayment profile of 3i's Private Equity portfolio, weighted by 3i carrying values, means that only 34% of the debt in these companies falls due before the end of 2014 and 43% falls due during or after 2018.

There is a trend towards closer scrutiny of the integrity and transparency of financial service firms by investors and a greater emphasis on Responsible Investing. Firms that are able to differentiate themselves in these areas are likely to be at an advantage in the future. In recognition of this, 3i completed a wide-ranging strategic review of Responsible Investing and launched a new set of enhanced policies and processes. In addition, the Group refreshed and relaunched its values supported by training for all staff. Further information is set out in the sections on Corporate responsibility and Business model and values.

Regulatory developments continue to be monitored closely. The key developments affecting 3i include: the European AIFM Directive, which will deliver higher levels of disclosure for applicable firms; the implementation of the UK Bribery Act; FATCA, which requires additional monitoring and reporting on transactions between 3i and US companies and citizens; and US financial reform, which requires certain 3i entities to be registered with the Securities and Exchange Commission. Changes which have been finalised or implemented so far have required some modifications to related policies and processes. The effect on 3i's overall business to date has not been disproportionate in the context of the wider Financial Services industry.

Finally, changes to the investment trust rules by HM Revenue & Customs in April 2012, will help 3i simplify its business, facilitate growth in developing markets and make it easier for the Group to invest without third-party funds.

Strategic

3i continues to anticipate and to respond to market conditions, risks and opportunities. The strategic focus has been on performance improvement and growth, taking full account of the challenges of the current environment.

The key strategic risks are similar to last year, and are focused around performance at this point of the economic cycle and the Group's funding strategy factoring in the current external fund raising environment, expected investment and realisation levels, and balance sheet management. The growth of 3i's debt management business and investment in developing markets have also been areas of focus.

Investment

The Group's key investment risks remain closely linked to the adverse economic and market conditions, described earlier. These conditions affect each of 3i's business lines in different ways and to varying degrees. 3i's Private Equity business line remains the largest in terms of both direct balance sheet investment and assets under management and has, therefore, been the main area of focus. Risks include the pricing of investment opportunities and potential underperformance of portfolio companies, impacting valuations and, for some investments, debt covenant tests. As part of the investment assessment and asset review process, ESG risks are also considered.

The overall health of 3i's investment portfolio has been mixed over the year, with some geographies and types of investment more exposed than others and, accordingly, some valuation reductions were required. Although it remains well diversified, the Group's investment portfolio has become relatively more concentrated over time, which may increase exposure to the performance of a smaller number of large investments and, therefore, the potential for material individual valuation movements. The level of concentration risk will vary over time as the composition of the Group's largest investments changes.

3i's Private Equity portfolio management processes and capabilities have been a subject of focus during the year. The portfolio company review process includes both the identification of risks that might affect a substantial proportion of the portfolio and the assessment of significant exposures to specific known risks. Examples of the latter include exposure to weaker Eurozone countries, where the direct impact is limited to a small number of portfolio companies. The indirect impact of a significant shock in the region, however, is more complex to assess.

Compliance with covenant tests – and for some portfolio companies, refinancing of debt – has become more challenging over the past year for some of the more highly leveraged portfolio investments. This is mainly as a result of slower growth in earnings together with some tightening of credit markets, reflecting the generally weak and uncertain macroeconomic environment. These risks are being closely monitored with input from 3i's banking team.

A further area of focus has been the trend in 3i's private equity investment and realisation levels. A cautious and highly selective approach has continued to be applied to new investment over the year. The run rate of realisations slowed in the second half of the year, reflecting caution on the part of buyers.

Treasury and funding

The Group maintains a conservative financial structure which is supported by a strong control framework and balance sheet targets. For example, a net debt limit is in place and a target maximum quantum for future refinancing in any single financial year.

The Group's bond refinancing strategy continues to focus on extending the overall maturity profile with a reduction of the overall gross debt level over time. Funding requirements are evaluated on a rolling 12 month outlook to ensure appropriate levels of liquidity are maintained. 3i's rating is BBB stable/Baa1 negative. In the context of uncertain market conditions, it is appropriate to continue to monitor the full range of refinancing options in advance of bond maturities. It remains important to balance liquidity benefits against the cost of funding and management of interest costs.

Liquidity continues to be monitored on a weekly basis and there is close review of counterparty exposures. The majority of funds continue to be 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 geographic mix.

The unprecedented current levels of uncertainty around the euro are expected to continue well into 2012. This could give rise to a number of possible scenarios, including a break-up of the Eurozone. Based on a review of these scenarios, the key issues potentially impacting 3i are around the euro hedging strategy and euro liabilities. A break-up would give rise to inevitably complex legal questions. In this context, a review has been undertaken of the Company's key loan documentation.

The Group uses core currency borrowing to hedge foreign exchange exposures in the portfolio, which are primarily in euro and US dollars. This is supplemented where necessary by the use of derivatives, subject to a maximum overall derivative limit agreed by the Board. In the current volatile market conditions, 3i's ability to re-finance currency debt at a time of its own choosing may be constrained. This could impact the Group's ability to sufficiently hedge the non-sterling portfolio in line with agreed targets. The effectiveness of the hedging strategy is closely monitored in the context of the Group's portfolio strategy, as well as market conditions and possible funding constraints.

Operational

The key operational risks facing the Group during the year relate mainly to people. In common with many other businesses, the difficult economic environment has contributed to a degree of uncertainty for staff. A number of teams have downsized to align with business needs and manage costs. This has involved some process changes and reallocation of responsibilities, which have required close management to ensure the internal control environment remains robust.

During the year, the Company refreshed and relaunched its core values, which involved workshops for all staff, and completed its annual employee engagement survey, the results of which are reported on page 64.

The process of integrating the 3i Debt Management team and bedding down related oversight, compliance and control processes has been completed during the year. In the Private Equity business, operational responsibilities have been realigned between Developed and Developing Markets.

A number of policies and procedures have been upgraded during the year. This has included a complete update of the Group's incident response plan; a review and update of human resources policies; the launch of an updated anti-bribery policy, supported by all staff e-learning; and some process changes in response to the Financial Service Authority's remuneration code.

Risk governance framework

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 strategic objectives or execution.

Risk management operates at all levels throughout the Group, across business lines, geographies and professional functions. The Board is ultimately responsible for risk management, which includes the Group's risk governance or oversight structure and maintaining an appropriate internal control framework. Management's responsibility is to manage risk on behalf of the Board.

By reporting regularly to Audit and Compliance Committee, the Group's Risk Committee provides support to the Board in maintaining oversight of the effectiveness of risk management across the Group.

The risk governance framework and the responsibilities of the main committees involved are shown opposite. Details can also be found in the Governance section (Pillar 3 disclosures) at www.3igroup.com.

There have been no changes to 3i's risk management framework over the course of the year. Risk reviews are generally carried out on a quarterly basis and aligned with the Group Risk Committee meetings, which are held as part of the Leadership Team meetings.

Related committees

The Brand and Values Committee oversees a range of matters which could create reputational risks for the Company, complementing the work of the Group Risk Committee. This includes identifying and assessing the significant risks and opportunities for 3i arising from corporate responsibility issues.

Oversight and operation

	Risk areas	Key reports	Board reporting	Risk management oversight
External risk	■ External stakeholders ■ Reputational ■ Government/ regulation ■ Market/economic	■ Pre-close briefings, interim updates and results announcements	Board – pre-publication	**Group Risk Committee** (Leadership Team) Chair: CEO
		■ Group management report – market review; investor relations	Audit Committee – quarterly	
		■ Group risk review	Audit Committee – quarterly	
		■ Review of brand and trends affecting reputation	Brand and Values Committee – annually	
		■ Reputational risk log	Brand and Values Committee – 3 times p.a.	
Strategic risk	■ Strategic delivery ■ Returns model ■ New business opportunities ■ Managing communications	■ Group management report – headline performance; strategic plan delivery	Board – 6 times p.a.	Quarterly updates **Audit Committee**
		■ New business proposals and business case	Board – as required	
		■ Group risk review	Audit Committee – quarterly	
		■ Strategic plan (and updates)	Board – annual update or refresh	
Investment	■ Portfolio performance ■ Investment level management ■ Divestment levels ■ Valuations ■ New investment decisions	■ Valuations Committee report	Valuations Committee and Board – half yearly	**Investment & Portfolio Committees** Chair: CIO
		■ Group management report – portfolio update; fund performance; new investments	Board – 6 times p.a.	
		■ Long-term vintage performance update	Board – 2 times p.a.	
		■ Periodic business updates	Board – as required	
		■ Portfolio Committee report	Audit Committee – 2 times p.a.	
		■ Group risk review	Audit Committee – quarterly	
Treasury and funding	■ Long-term funding ■ Gearing ■ Liquidity ■ Market risks (FX etc)	■ Group management report – key financial highlights; financial performance; ICAAP	Board – 6 times p.a.	**Treasury Management Committee** Chair: CEO
		■ Group risk review	Audit Committee – quarterly	
		■ Annual budget (and rebase)	Board – 2 times p.a.	
		■ Financial forecasts	Board – 3 times p.a.	
		■ Group financial resources review	Board – at least six monthly	
Operational	■ People, processes and systems ■ Legal and regulatory compliance ■ Reputational	■ Risk log summary	Audit Committee – quarterly	**Operating Committee** Chair: Group FD
		■ Group risk review	Audit Committee – quarterly	
		■ Litigation summary	Audit Committee – quarterly	
		■ Review of 3i values	Brand and Values Committee – annually	
		■ Compliance update reports	Audit Committee – quarterly	
		■ Internal control effectiveness review	Audit Committee – 2 times p.a.	

Reports and updates

Risk factors

	External	Strategic
	Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group's operations.	Risks in relation to the Group's key strategic choices, including the design and delivery of the Group's business model, and key decisions on areas of investment and capital allocation.
Inherent risks	■ Changes in macroeconomic variables, eg rates of growth, inflation ■ General health of capital markets, eg conditions for initial public offerings ■ Exposure to new and emerging markets ■ Regulatory developments ■ Changes in government policy, eg taxation ■ Reputational risks ■ Reputation risk in portfolio companies, which may impact 3i by association	■ Understanding and analysis of risks and rewards ■ Appropriateness of business model ■ Unexpected changes in the Group's operating environment ■ Unanticipated outcomes versus assumptions ■ Potential loss of key staff in areas critical to the Group's strategic delivery
Risk mitigation	■ Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets ■ Close monitoring of regulatory and fiscal developments in main markets by in-house specialists and external advisors ■ Due diligence when entering new markets or business areas	■ Periodic strategic reviews ■ Regular monitoring of key risks by Group Risk Committee and the Board ■ Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions ■ Disciplined management of key strategic projects
Key developments	■ Continuing uncertain economic conditions, particularly in Europe ■ Regulatory developments which may impose additional costs	■ Continued challenging market and economic conditions impacting investment performance and, therefore, strategic delivery ■ Continued caution on the part of third-party investors ■ Greater reliance on developing markets as a source of new investment opportunities
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Investment

Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios.

- Market competition, eg number of participants and availability of funds
- Asset pricing and access to deals, eg on a proprietary basis
- Investor capability and investment discipline
- Alignment of remuneration
- Underlying asset performance, eg earnings growth, cash headroom, ESG issues
- Asset valuations
- Overexposure to a particular sector, geography or small number of assets
- Investment performance track record
- Reputational risks arising from portfolio related events

- In-depth market and competitor analysis, supported by an international network of sector and industry specialists
- Rigorous investment appraisal and approval process
- Responsible Investing guidelines incorporated into investment procedures
- Regular asset reviews, including risk assessment, based on up-to-date management accounts and reporting
- Consistent application of detailed valuation guidelines and review processes
- Representation by a 3i executive on the boards of investee companies
- Setting of investment concentration limits
- Periodic portfolio reviews to monitor exposure to sectors, geographies and larger assets

- Investment levels below planned run rate owing to a cautious and selective approach to new investments
- Continued impact of current economic environment on the growth of portfolio companies' earnings
- Availability and terms of credit adversely affected by uncertainty in the wider credit markets
- Generally difficult M&A market conditions
- Launch of 3i's new Responsible Investing guidelines

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Treasury and funding

Risks in relation to changes in market prices and rates; access to capital markets and third-party funds; and the Group's capital structure.

- Liquidity
- Level of gearing
- Debt levels and maturity profile
- Credit rating and access to funds
- Counterparty risk
- 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 and net debt against target limits
- Monitoring of material debt maturities within a 12 month rolling period
- Use of currency borrowings to reduce structural currency exposures
- Use of "plain vanilla" derivatives where appropriate
- Regular Board reviews of the Group's financial resources and treasury policy
- Strong liquidity position maintained

- Continued uncertainty and dislocation within the Eurozone

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Operational

Risks arising from inadequate or failed processes, people and systems or from external factors affecting these.

- Resource balance, including recruitment, retention and development of capable people
- Appropriate systems, processes and procedures
- Adherence to tax regulations, including permanent establishment risk
- 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
- Procedures and job descriptions setting out line management responsibilities for identifying, assessing, controlling and reporting operational risks
- 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
- Controls over information security, confidentiality and conflicts of interest
- Anti-fraud programme

- Integration of debt management business
- Changes in applicable tax and regulatory requirements
- Downsizing in response to business needs and to manage costs
- Refresh and relaunch of core values
- New or upgraded policies and procedures eg anti-bribery

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Corporate responsibility

This section explains how we take a committed, engaged and responsible approach to everything that we do, to ensure that we are both a responsible company and a responsible investor.

Corporate responsibility at 3i

For 3i, corporate responsibility is about being both a responsible investor and a responsible company. It means taking responsibility for our actions, carefully considering how others will be affected by our choices and ensuring that our values are integrated into our formal business policies, practices and plans. Most of all, it is about behaving in a responsible way.

During the year, we further developed our brand, our values and our approach to Responsible Investment ("RI"). I am particularly pleased with the work that we have done to refresh and embed our RI policy and procedures.

We believe that companies with high environmental, social and governance ("ESG") standards are typically better run, have fewer business risks and are easier to realise value from.

I am pleased that we have become signatories to the UN Principles for Responsible Investing. At a time when the investment community is being challenged by stakeholders, it is important that we come together as an industry and demonstrate our commitment to behaving responsibly in our investment activities.

I hope that you find the following report of interest. More information is also available online at www.3igroup.com.

Michael Queen
Chief Executive

Organisation and governance

Board and senior level

Investment Committee Portfolio Committee Operating Committee	Brand and Values Committee Chaired by 3i Chairman	Group Risk Committee Chaired by Chief Executive

Operational level

Implementation by staff with the support of in-house and external expertise

For more information, please go to 'Accountability' in the corporate responsibility section of our Investor relations website.

For more information, go to:
www.3igroup.com/cr

Corporate responsibility and our business model

Corporate responsibility is integrated into our business model, as the diagram below shows.

Secure access to capital from multiple sources

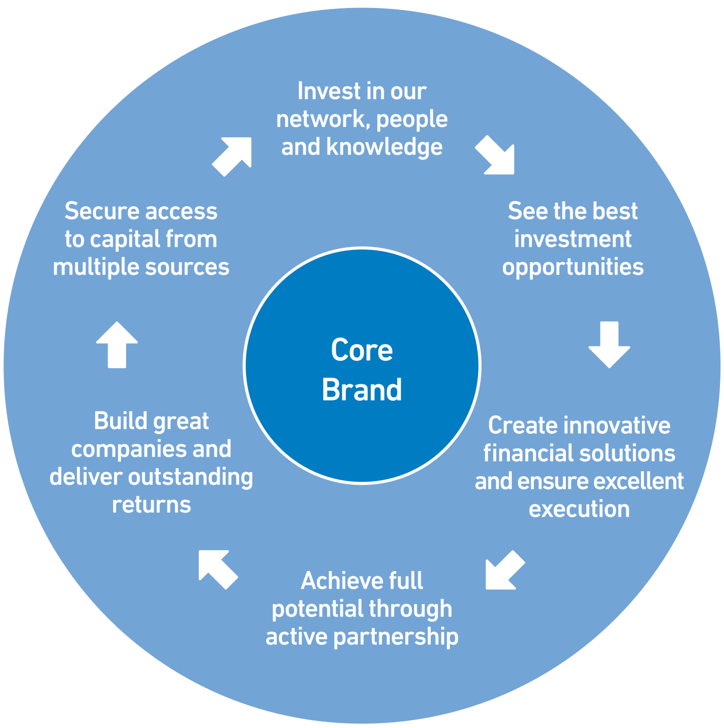
Our annual Corporate Governance event with shareholders, individual engagements with the investors in our funds, and our round-table discussions with the wider investment community have provided useful input to developing our approach.

Invest in our network, people and knowledge

Further investment in our "One 3i" initiative through, for example, Values workshops for all staff, reinforced our focus on the retention and engagement of our staff.

See the best investment opportunities

We have invested time and resources in seeking earlier and greater visibility of material ESG matters in our investment processes.



Build great companies and deliver outstanding returns

We have developed a more explicit Responsible Investment policy and integrated a deeper analysis of the materiality and management of ESG matters in our investment process and in our portfolio company review process.

Achieve full potential through active partnership

Increased training and improved tools for our investment professionals on a range of ESG topics has been developed in order to create greater awareness and capability, as well as helping to identify opportunities for enhanced returns.

Create innovative financial solutions and ensure excellent execution

As part of our increased awareness on ESG issues, there is a focus on transparency and on good governance.

3i's values

Our approach to corporate responsibility and our business model is underpinned by our values, which together commit us to doing the right thing in the right way.

The values of ambition, courage, responsibility, collaboration and integrity collectively drive our objective to be a successful investor and deliver superior performance.

Responsible Investing

Our vision is to be recognised as a leading international investor based on the value we add to our portfolio, the returns we deliver to our investors and our responsible approach to investing.

We believe that:

- the effective assessment and management of ESG matters has a positive effect on the value of our investee companies and of 3i Group itself;
- compliance with local laws and regulations may not be enough to meet global expectations, deliver value and enhance our reputation and licence to operate; and
- it is vital that we seek to identify all material ESG risks and opportunities through our due diligence and effectively manage them during the period of 3i's investment.

During the year, we initiated a project to review and improve our RI approach. The result was a refreshed policy supported by "on the ground" tools, resources and procedures to embed the policy into our investment processes and apply them consistently across the business.

Our policy makes it clear that we aim to use our influence as an investor to promote a commitment in our investee companies to:

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

Main features of the policy include:

- clear statements of our commitment to mitigate adverse environmental and social impacts and uphold high standards of business integrity and good corporate governance;
- an exclusion list of businesses and activities in which we will not invest;

- a referral list of activities that we may invest in but which may be sensitive and require additional scrutiny; and
- a set of minimum ESG standards that we will seek to implement during the period of our investment.

The policy is underpinned by:

- a set of updated RI procedures that complement our investment processes and ensure that they are consistently applied across all of our investment activities;
- an online toolkit that provides screening and risk assessment tools for ESG risks, including anti-bribery and corruption risks;
- a series of guidance notes for investment teams, covering key issues and sectors, with links to case studies, international norms and standards and information about specific emerging markets;
- a list of preferred ESG due diligence suppliers;
- a "one-stop shop" RI portal that provides access for staff to all these resources; and
- a full-time internal Responsible Investing Manager who supports the deal teams in the application of the RI policy.

Working with advisers, as part of this project, we reviewed our Private Equity and Infrastructure portfolios, identifying over 25 companies for more rigorous analysis in environmental, social and governance ("ESG") matters. This review focused not only on ESG risks, but also on the opportunities for creating value. Going forward, our investment teams will work with our Active Partnership programme to drive the themes more consistently through our investments to create value.

Corporate responsibility at 3i

External benchmarking

	2011	2010	2009
Dow Jones Sustainability Index (DJSI)	Score: **62%**	Score: **62%**	Score: **61%**
Carbon Disclosure Project	Disclosure score: **71%**	Disclosure score: **43%**	CDP: **51%**
Business in the Community (BitC) CR Index	Score: **81%** Silver	Score: **81%** Silver	Score: **80%** Silver

As a founder member of BitC over thirty years ago, we are proud to have maintained our ranking in the 2011 BitC CR Index. We have also maintained our ranking in the DJSI and have been included in the FTSE4Good for the first time. Also, our disclosure score from the Carbon Disclosure Project has seen some improvement.

We ensure that 3i is an attractive place to work through investment in staff, internal communications and our brand. We believe that investing in these areas will foster a strong and unified culture. This is best illustrated by our "best team for the job" approach, which aims to harness the skills and knowledge of our teams from around the world.

During the year, we refreshed both our brand and values, and held a series of internal discussions and workshops to ensure that our brand and values accurately reflect our markets and the needs of all of our stakeholders.

	2012	2011	2010	2009
Employee engagement	**69%**	86%	74%	83%

We achieved good scores in our annual employee engagement survey, particularly in the areas of being committed to helping us meet our objectives, taking responsibility to act according to our values, teamwork and loyalty, with 72% of respondents saying they are proud to work for us.

However, the challenging operating environment has been reflected in an overall employee engagement score of 69%, which is lower than in previous periods, although broadly in line with other UK companies surveyed.

Employee engagement is a composite measure of employees' views of how well their abilities are used, recognised and valued by the company, their commitment and pride in working for us and their understanding of their contribution, commitment and pride in working for us.

Our priorities for the year ahead

We recognise that we have more to do in this area, and have identified the following priorities for the year ahead:

- ensuring that our revised Responsible Investing procedures are fully implemented and supported by appropriate training and resources;
- further work on enhancing our monitoring and reporting to include meaningful KPIs with respect to ESG matters in our portfolio; and
- building on the results of our portfolio review on ESG matters to engage with portfolio management teams and assist them in achieving improvements.

For more information, please go to the Corporate responsibility section of our Investor relations website.

For more information, go to:
www.3igroup.com/cr

Governance

Information on how 3i is governed and managed, as well as our Remuneration report and details on our Board and Leadership Team.

Board of Directors and Leadership Team

Board of Directors


Sir Adrian Montague


Michael Queen


Julia Wilson


Simon Borrows


Jonathan Asquith


Alistair Cox


Richard Meddings


Willem Mesdag


Martine Verluyten

Chairman

Sir Adrian Montague

Chairman

Chairman since July 2010 and a non-executive Director since June 2010. Chairman of CellMark Investments AB, Anglian Water Group, Hurricane Exploration plc and the Green Investment Bank Advisory Group. A director of Skanska AB and Morrison plc.

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.

Executive Directors

Michael Queen

Chief Executive

Chief Executive since 2009, and an executive Director since 1997. Chairman of the Group Risk Committee and a member of the Leadership Team. A member of the Group's Investment Committee and Portfolio Committee. Joined 3i in 1987. A member of the Prime Minister's Business Advisory Group.

Previous experience

Seconded to HM Treasury 1994 to 1996. Group Financial Controller from 1996 to 1997 and Finance Director from 1997 to 2005. Managing Partner, Growth Capital 2005 to 2008 and Managing Partner, Infrastructure 2005 to 2009. Chairman of the British Venture Capital Association from 2002 to 2003.

Julia Wilson

Group Finance Director

Group Finance Director and member of the Leadership Team since 2008. Chair of the Group's Operating Committee since it was established in September 2010. Joined 3i in 2006 as Deputy Finance Director, with responsibility for the Group's finance, taxation and treasury functions. Also a non-executive director of Legal & General Group Plc.

Previous experience

Group Director of Corporate Finance at Cable & Wireless plc.

Simon Borrows

Chief Investment Officer

Executive Director, Chief Investment Officer and a member of the Leadership Team since October 2011. Chairman of the Group's Investment Committee and Portfolio Committee since October 2011. Also a non-executive director of The British Land Company plc and of Inchcape plc.

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.

Non-Executive Directors

Jonathan Asquith

Non-executive Director since March 2011. Non-executive director of Ashmore Group plc, AXA UK plc and Chairman of AXA Investment Managers.

Previous experience

A 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.

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.

Leadership Team

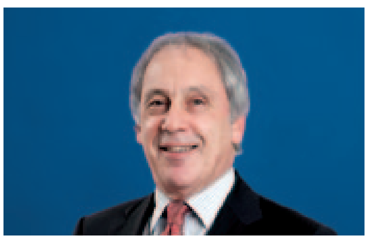

Menno Antal


Kevin Dunn


Jeremy Ghose


Alan Giddins


Cressida Hogg


Paul Waller


Guy Zarzavatdjian

Leadership Team

Menno Antal
Managing Partner, Developed Markets, Private Equity. A member of the Leadership Team since September 2010. A member of the Group's Investment Committee and Portfolio Committee since September 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 Leadership Team since joining 3i in 2007.

Previous experience
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 Leadership Team 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, Developed Markets, Private Equity. A member of the Leadership Team since September 2010. A member of the Group's Investment Committee and Portfolio Committee since September 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 Leadership Team since September 2010. A member of the Group's Investment Committee and Portfolio Committee since September 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.

Paul Waller
Managing Partner, Fund Management. A member of the Leadership Team since 1999. A member of the Group's Investment Committee since 1997 and a member of the Group's Portfolio Committee since it was established in September 2010. A non-executive director of 3i Infrastructure plc.

Previous experience
Joined 3i in 1978. Chairman of the European Private Equity and Venture Capital Association from 1998 to 1999.

Guy Zarzavatdjian
Managing Partner, Developing Markets, Private Equity and Chairman, France. A member of the Leadership Team since 2007. A member of the Group's Investment Committee since 2006 and of the Group's Portfolio Committee since it was established in September 2010.

Previous experience
Joined 3i's Paris office in 1987. Managing Director, Benelux from 1999 to 2002 and Managing Director, France from 2002 until 2007.

Board Committees

Audit and Compliance Committee:
Richard Meddings (Chairman)
Jonathan Asquith
Alistair Cox
Martine Verluyten

Remuneration Committee:
Jonathan Asquith (Chairman)
Alistair Cox
Willem Mesdag

Nominations Committee:
Sir Adrian Montague (Chairman)
Jonathan Asquith
Alistair Cox
Richard Meddings
Willem Mesdag
Michael Queen
Martine Verluyten

Valuations Committee:
Willem Mesdag (Chairman)
Sir Adrian Montague
Michael Queen
Julia Wilson

Statutory and corporate governance information

This section of the Directors' report contains statutory and corporate governance information for the year to 31 March 2012 ("the year") concerning the Company and its subsidiaries ("the Group").

Principal activity

3i 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 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 for the year to 31 March 2011. Since that date the Company has directed its affairs to enable it to continue to be 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 FSA 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 £(656) million (2011: £324 million). An interim dividend of 2.7p per ordinary share in respect of the year to 31 March 2012 was paid on 11 January 2012. The Directors recommend a final dividend of 5.4p per ordinary share be paid in respect of the year to 31 March 2012 to shareholders on the Register at the close of business on 22 June 2012.

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 2012, 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.

Share capital

The issued share capital of the Company as at 31 March 2012 comprised 971,069,281 ordinary shares of 73 $\frac{19}{22}$p each and 4,635,018 B shares (cumulative preference shares of 1p each), which represented 99.99% and 0.01% respectively of the nominal value of the Company's issued share capital. During the year, the issued share capital of the Company altered as set out below.

Ordinary shares

The issued ordinary share capital of the Company as at 1 April 2011 was 970,650,620 ordinary shares. During the year to 31 March 2012 this increased by 418,661 ordinary shares as a result of the issue of shares to the trustee of the 3i Group Share Incentive Plan.

At the Annual General Meeting ("AGM") on 6 July 2011, 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 11 May 2011) until the Company's AGM in 2012 or 5 October 2012, if earlier. This authority was not exercised in the year.

B shares

The issued B share capital of the Company as at 1 April 2011 was 4,635,018 B shares. No B shares were issued in the year to 31 March 2012. At the AGM on 6 July 2011, the Directors were authorised to repurchase up to 4,635,018 B shares in the Company until the Company's AGM in 2012 or 5 October 2012, if earlier. This authority was not exercised in the year.

Directors' interests

In accordance with FSA Listing Rule 9.8.6(R)(1), Directors' interests in the shares of the Company (in respect of which transactions are notifiable to the Company under FSA Disclosure and Transparency Rule 3.1.2(R)) as at 31 March 2012 are shown below:

	Ordinary shares	B shares
Sir Adrian Montague	57,758	0
J P Asquith	2,500	0
S A Borrows	1,567,158	0
A R Cox	4.900	0
R H Meddings	18,460	0
W Mesdag	224,174	0
M J Queen	1,703,162	6,227
M G Verluyten	0	0
J S Wilson	59,686	1,038

The share interests shown for Mr M J Queen and Mrs J S Wilson include shares held in the 3i Group Share Incentive Plan and share bonus awards under the 3i Group Deferred Bonus Plan. The share interests shown exclude share option and performance share awards detailed in the Directors' remuneration report. From 1 April 2012 to 10 May 2012, Mr M J Queen and Mrs J S Wilson became interested in an additional 201 and 198 ordinary shares, respectively, and there were no other changes to Directors' share interests.

Statutory and corporate governance information

Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital (which are notifiable in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules and section 793 Companies Act 2006) had been received by the Company as at 31 March 2012 and 10 May 2012:

	As at 31 March 2012	% of issued share capital	As at 10 May 2012	% of issued share capital	Nature of holding
BlackRock, Inc	106,259,273	10.943	106,259,273	10.943	Indirect
Ameriprise Financial, Inc. and its group	66,041,715	6.805	66,041,715	6.805	Direct and Indirect
Standard Life Investments plc	48,482,387	4.996	48,482,387	4.996	Direct and Indirect
Schroders Plc	47,870,160	4.933	47,870,160	4.933	Indirect
Legal & General Group Plc and/or its subsidiaries	38,620,595	3.979	38,620,595	3.979	Direct

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2012 is set out below.

The amendment of the Company's Articles of Association is governed by relevant statutes. The Articles may be amended by special resolution of the shareholders in general meeting.

Holders of ordinary shares and B shares enjoy the rights accorded to them under 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 of the Company and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. 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 receive notice of or attend, speak or vote at general meetings of the Company 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 or where a transfer is to more than four joint holders. The Board may decline to register any transfer of certificated shares which is not in respect of only one class of share, which is to more than four joint holders, which is not accompanied by the certificate for the shares to which it relates, which is not duly stamped in circumstances where a duly stamped instrument is required, or 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.

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.

To attend and vote at a Company 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.

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.

Debentures

As detailed in note 21 to the Accounts, as at 31 March 2012 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

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.

The Company's Articles of Association provide for:

(a) the minimum number of Directors to be two and the maximum to be 20, unless otherwise determined by the Company by ordinary resolution;

(b) Directors to be appointed by ordinary resolution of the Company's shareholders in general meeting or by the Board;

(c) Directors to retire by rotation at an AGM if:

  (i) they have been appointed by the Board since the preceding AGM;

  (ii) they held office during the two preceding AGMs but did not retire at either of them;

  (iii) 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

  (iv) they choose to retire from office; and

(d) shareholders to 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 UK Corporate Governance Code all Directors submit to reappointment every year. Accordingly at the AGM to be held on 29 June 2012 all the Directors will retire from office. All these Directors are eligible for and, save for Mr M J Queen who is stepping down from the Board, seek reappointment.

The Board's recommendation for the reappointment of Directors is set out in the 2012 Notice of AGM.

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 access and support to job applicants who happen to be disabled and who respond to our request 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 are through employee appraisals, informal consultations, team briefings, and staff conferences and surveys. 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.

Statutory and corporate governance information

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 eligible for a performance-related bonus. 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 co-investment plans and 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 2012 amounted to £409,828. Detail on these donations is provided in the CR section of our Investor relations website, www.3igroup.com.

In line with Group policy, during the year to 31 March 2012 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's 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 18.7 days' purchases.

Significant agreements

As at 31 March 2012 the Company was party to the following agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid:

(a) £200 million Revolving Credit Facility Agreement dated 4 November 2009, between the Company, 3i Holdings plc and Lloyds TSB Bank plc in relation to the provision of a multi-currency term and revolving credit facility to the Company and 3i Holdings plc. Under this agreement, the Company would be required to notify Lloyds TSB Bank plc within five days of any change of control of the Company. Such notification would open a negotiation period of 20 days (from the date of the change of control) to determine whether Lloyds TSB Bank plc would be willing to continue to make available the facility and, if so, on what terms. Failing agreement and if so required by Lloyds TSB Bank plc, amounts outstanding would be required to be repaid and the facility cancelled;

(b) £450 million Revolving Credit Facility Agreement dated 30 June 2011, between the Company, 3i Holdings plc, Lloyds TSB Bank plc, Barclays Capital, Goldman Sachs International, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Société Générale London Branch, Abbey National Treasury Services Plc, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft London Branch, Credit Suisse Ag London Branch, Deutsche Bank Ag London Branch, JPMorgan Chase Bank N.A., Standard Chartered Bank and UBS Limited in relation to the provision of a multi-currency revolving credit facility to the Company and 3i Holdings plc. Under this agreement, the Company would be required to notify Lloyds TSB Bank plc, in its capacity as agent for the banks, within five days of any change of control of the Company. Such notification would open a negotiation period of 20 days (from the date of the change of control) 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 required to be repaid and the facility cancelled;

(c) £50 million Revolving Credit Facility Agreement dated 29 September 2011, between the Company, 3i Holdings plc and Nordea Bank Finland PLC London Branch in relation to the provision of a multi-currency revolving credit facility to the Company and 3i Holdings plc. Under this agreement, the Company would be required to notify Nordea Bank Finland PLC London Branch within five days, of any change of control of the Company. Such notification would open a negotiation period of 20 days (from the date of the change of control) to determine whether Nordea Bank Finland PLC London Branch would be willing to continue to make available the facility and, if so, on what terms. Failing agreement, and if so required by Nordea Bank Finland PLC London Branch, amounts outstanding would be required to be repaid and the facility cancelled; and

(d) Limited Partnership Agreements dated 24 March 2010, between 3i GC GP Limited, the Company, other 3i entities and other investors from time to time in relation to the formation of partnerships to carry on the business of investing as the fund known as 3i Growth Capital Fund. Under these agreements, the manager, 3i Investments plc, would be required to notify the investors of any change of control of the Company. If such a change of control occurred before the end of the relevant investment period, the manager's powers to make new investments on behalf of the partnerships would be suspended unless the investors had given consent before the change of control occurred. Where suspension occurs, the investors may consent at any time before the end of the investment period to the resumption of the manager's powers.

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 FSA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the 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 Leadership Team section.

Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2012.

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.

By order of the Board

K J Dunn
Company Secretary
16 May 2012

Registered Office:
16 Palace Street, London SW1E 5JD

Corporate governance statement

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 has a policy of seeking 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 values which employees are expected to display were refreshed during the year.

The Board's responsibilities and processes

The Board 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 July 2011, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits. At the AGM in July 2011, shareholders authorised the Board 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 2012 AGM are set out in the 2012 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.

The Board determines matters including financial strategy and planning and takes major business decisions. The Board has put in place an organisational structure. This is further described under the heading "internal control".

Attendance at Board and Committee Meetings

The table below shows the number of scheduled meetings attended by Directors during the year to 31 March 2012 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	6	4	4	6	3	3
Number attended:						
Sir Adrian Montague	6 (6)	–	4 (4)	–	3 (3)	3 (3)
M J Queen	6 (6)	–	4 (4)	–	3 (3)	3 (3)
S A Borrows[1]	3 (3)	–	–	–	–	–
J S Wilson	6 (6)	–	–	–	3 (3)	–
J M Allan[2]	0 (0)	–	–	1 (1)	–	–
J P Asquith	6 (6)	4 (4)	4 (4)	6 (6)	–	–
A R Cox[3]	6 (6)	3 (4)	4 (4)	5 (5)	–	–
R H Meddings	6 (6)	4 (4)	4 (4)	–	–	–
W Mesdag	6 (6)	–	4 (4)	6 (6)	3 (3)	–
C J M Morin-Postel[4]	1 (1)	–	–	1 (1)	–	–
M G Verluyten[5]	2 (2)	1 (1)	1 (1)	–	–	–

1 Appointed to the Board on 17 October 2011.
2 Retired on 1 May 2011.
3 Appointed to Remuneration Committee on 6 July 2011.
4 Retired on 6 July 2011.
5 Appointed to the Board on 1 January 2012, and to the Nominations Committee and Audit and Compliance Committee on 1 February 2012.

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 Leadership Team;
- principal terms and conditions of employment of members of the Leadership Team; 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 Leadership Team and the formulation and execution of risk management policies and practices.

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 strategic plan, budget and financial resources;
- regular reports from the Chief Executive;
- regular reports from the Board's committees;
- the recommendations of the Valuations Committee on valuations of investments;
- the business model and its application by different business lines;
- the creation of a Brand and Values Committee;
- independence of non-executive Directors; and
- the portfolio company management process.

Information

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

Performance evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. The evaluation process in the year to 31 March 2012 was conducted internally by the Chairman with the assistance of the Company Secretary. The results of this year's evaluation process were reported to and discussed by the Board.

The Board performance evaluation included consideration of the overall functioning of the Board. Particular topics considered included: the optimum balance of attendance at Board meetings by managers below Board level, the balance of Board agendas, the adoption of a regular calendar of Board presentations and briefings, enhancements to the structure and content of Board packs, monitoring by non-executive Directors of investment approvals at Investment Committee, and increased portfolio company and investment team visits. The Board evaluation process also included consideration of the size, balance and composition of the Board including its diversity, including as to gender. The evaluation process was valuable in enabling Directors to identify a number of areas where its working practices could usefully be developed.

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.

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.

The Chairman

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. The Chairman ensures that regular reports from the Company's brokers are circulated to the non-executive Directors to enable non-executive Directors to remain aware of shareholders' views. The Chairman ensures effective communication with the Company's shareholders.

The Chief Executive

The Chief Executive has 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. The Chief Executive has formed a committee called Leadership Team to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises Mr M J Queen, Mr S A Borrows, Mrs J S Wilson, Mr M A Antal, Mr K J Dunn, Mr A C B Giddins, Mr J R Ghose, Ms C M Hogg, Mr P Waller and Mr G A R Zarzavatdjian. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Senior Independent Director

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 comprises the Chairman, five independent non-executive Directors and three executive Directors. Biographical details for each of the Directors are set out in the Board of Directors and Leadership Team section. Sir Adrian Montague served as Chairman and a Director throughout the year under review. Mr J P Asquith, Mr A R Cox, Mr R H Meddings, Mr W Mesdag, Mr M J Queen and Mrs J S Wilson served as Directors throughout the year under review. Mr S A Borrows and Ms M G Verluyten served as Directors from 17 October 2011 and 1 January 2012 respectively. Mr J M Allan and Mme C J M Morin-Postel served as Directors until 30 April 2011 and 6 July 2011 respectively.

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.

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 2012.

The Board assesses and reviews the independence of each of the 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

The Board is assisted by various standing committees of the Board which report regularly to the Board. The membership of these committees is regularly reviewed by the Board. When considering committee membership and chairmanship, the Board aims to ensure that undue reliance is not placed on particular Directors.

These committees all have clearly defined terms of reference. The terms of reference of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee are available at www.3igroup.com. The terms of reference provide that no one other than the particular committee chairman and members may attend a meeting unless invited to attend by the relevant committee.

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 served throughout the year, save for Ms M G Verluyten who served as a member of the Committee from 1 February 2012. Mme C J M Morin-Postel served as a member of the Committee until 6 July 2011. All the members of the Committee are independent non-executive Directors. 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 and received reports on bank covenants and third-party liabilities;
- 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;
- received Portfolio Committee reports;
- received regular reports from the Group's internal audit function, monitored its activities and effectiveness, and agreed the annual internal audit plan;
- received regular reports from the Group's regulatory compliance function and Group Risk Committee, and monitored their activities and effectiveness;
- 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 with the external auditors in the absence of management; and
- reviewed the portfolio management processes.

Remuneration Committee

The Remuneration Committee comprises Mr J P Asquith (Chairman from 9 May 2011), Mr A R Cox and Mr W Mesdag, all of whom served throughout the year, save for Mr A R Cox who served from 6 July 2011. Mr J M Allan stepped down as Chairman of the Committee on 30 April 2011. Mme C J M Morin-Postel served as a member of the Committee until 6 July 2011. All the current members of the Committee are independent non-executive Directors.

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

Nominations Committee

The Nominations Committee comprises Sir Adrian Montague (Chairman), Mr M J Queen, Mr J P Asquith, Mr A R Cox, Mr R H Meddings, Mr W Mesdag and Ms M G Verluyten, all of whom served throughout the year, save for Ms M G Verluyten who served from 1 February 2012. Mme C J M Morin-Postel served as a member of the Committee until 6 July 2011.

During the year, the Nominations Committee:

- considered and recommended Mr S A Borrows for appointment as Chief Investment Officer and executive Director of the Company;
- considered and recommended Ms M G Verluyten for appointment as a non-executive Director of the Company;
- considered other potential candidates for non-executive Director appointments; and
- considered the size, balance, diversity (including gender) and composition of the Board.

A formal, rigorous and transparent process for the appointment of Directors has been established 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, 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.

The Nominations Committee agreed during the year that standing instructions for search agents engaged by the Company should be 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 M J Queen and Mrs J S Wilson, all of whom served throughout the year.

During the year, the Valuations Committee considered and made recommendations to the Audit and Compliance Committee and the Board on valuations of the Group's investments to be included in the half-yearly and annual financial statements of the Group and reviewed valuations policy and methodology.

Brand and Values Committee

The Brand and Values Committee comprises Sir Adrian Montague (Chairman), Mr M J Queen and Mr K J Dunn, all of whom served throughout the year, together with two or more non-executive Directors determined by the Board from time to time.

During the year, the Brand and Values Committee considered and made recommendations on a range of matters pertaining to the Group's reputation, brand and values, and its approach as a responsible investor and a responsible business. The Committee reviewed the Responsible Investment policy, the approach to membership of ethical indices, the brand and trends affecting reputation, the 3i Values workshops, reputational risks in emerging markets, training on responsible investment, the staff survey, whistle-blowing reports and the reputational risk log.

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.

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, together with the Group Communications 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.

During the year, at the invitation of the Chairman, the Company's major shareholders met with the Chairman and the Company Secretary to discuss matters of corporate governance and corporate responsibility relevant to the Company and its shareholders.

The 2011 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

Portfolio management and voting policy

In relation to unquoted investments, the 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 regularly and approves a budget on an annual basis. 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 2012 and up to the date of this report.

The Group Risk Committee's activities are supported by the activities of Treasury Management Committee as well as the Portfolio Committee and Operating Committee. 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 treasury reports to the Board, which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to interest and 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 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 on the basis of 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.

Directors' remuneration report

Directors' Remuneration Report for the financial year 1 April 2011 to 31 March 2012 ("the year"). References to "the current year" relate to the financial year 1 April 2012 to 31 March 2013.

Key considerations

Decisions in relation to executive Director remuneration taken by the Committee have been made in the context of:

- The review of the reward framework referred to below which took place in the early part of the year;
- The performance of the Company over the year;
- The decision of the Chief Executive to stand down once a successor had been appointed, which was announced on 29 March 2012, and his subsequent request not to be considered for a bonus in respect of the year; and
- The appointment to the Board earlier in the year of a new executive Director as Chief Investment Officer.

Remuneration Committee

	Regular meetings attended in the year	Regular meetings eligible to attend in the year
J P Asquith (Member from 31 March 2011 and Committee Chairman from 9 May 2011)	6	6
A R Cox (from 6 July 2011)	5	5
W Mesdag	6	6
J M Allan (Member and Committee Chairman until 30 April 2011)	1	1
C J M Morin-Postel (until 6 July 2011)	1	1

Notes:
1. In addition to the regular meetings referred to above additional ad hoc meetings were held from time to time to approve specific matters as they arose. The Committee's terms of reference are available on the Company's website.
2. The Committee was advised in the year by Kepler Associates (external remuneration advisers appointed by the Committee) and by Mr M J Queen (Chief Executive), who did not advise the Committee on his own remuneration.
3. Kepler Associates did not provide any services to the Group during the year other than to the Remuneration Committee.

Remuneration Policy for the current and future years

Background

The Company's primary reward objective is to ensure that the Group's performance is sustainable over the long term, and that the Company's shareholders and fund investors are well rewarded for their investment. The key principles underpinning this are that:

- Reward should be structured to support Group strategy and sound risk management;
- Employees' interests should be aligned with the long-term interests and returns of shareholders and, where applicable, fund investors;
- The Company should attract, retain and incentivise the required quality of staff by offering a market competitive total package which:
  - Reflects the individual's current and potential value to the Group; and
  - Recognises business and individual financial and non-financial performance; and
- Particular consideration should be given to the use (where appropriate) of:
  - Investment staff performance metrics based on cash-to-cash returns or cash/fee receipts;
  - The deferral of some elements of variable pay; and
  - The requirement for staff in some situations to "co-invest" in shares or in one of 3i's funds (which is in effect an additional form of long-term deferral).

Chairman and non-executive Directors

Fees are intended to be competitive with fees paid by companies of comparable size and by listed financial services companies. The Chairman and non-executive Directors are not eligible for bonuses, long-term incentives, pensions or performance-related remuneration. Fees are reviewed regularly by the Board (or, in the case of the Chairman's fee, by the Committee.) No changes to remuneration policy for the Chairman and non-executive Directors are expected for the current or subsequent years.

Executive Directors

During the early part of the year the Committee reviewed the overall reward framework for executive Directors in the context of:

- The Board's belief that management's priorities should be to drive performance in the core Private Equity business by striking the right balance between investment and realisation and by optimising the performance of portfolio companies, whilst seeking to alleviate the volatility in the Group's results, *inter alia*, by building on the success of the Infrastructure and Debt Management businesses; and
- Regulatory developments, including the FSA Remuneration Code.

Directors' remuneration report

The review took account of the competitiveness of each executive Director's total remuneration against comparable positions at FTSE 100 Financial Services companies, alternative investment managers and private equity firms. When considering the executive Directors' remuneration, the Committee is also sensitive to wider issues, including pay and employment issues elsewhere in the Group.

As a result of the review the Committee decided to:

- Keep the fair value of the total package (including salary levels) unchanged;
- Increase the annual bonus opportunity, with the maximum cash bonus opportunity being maintained at 100% of salary, and with the additional opportunity being delivered in shares deferred for three years (rather than two years, as previously), subject to clawback, and to provide that more than 75% of the total bonus opportunity could only be awarded for exceptional performance;
- Use a scorecard of annual bonus metrics to drive in-year performance and a culture of greater accountability throughout the organisation; and
- Introduce new performance share arrangements to focus management on medium-term objectives.

The performance shares awarded to the executive Directors under these new arrangements in 2011 are subject to a Total Return on Equity performance condition measured over a three year period as set out on page 86. The vesting schedule reflects the Board's desire to motivate management to secure consistent returns without assuming the incremental risk that aiming for higher returns might involve. To the extent the performance condition is satisfied shares are released on a phased basis in three annual instalments subject to leaver terms and to the clawback provision. The Committee can also reduce the percentage of an award which vests if it is not satisfied that the Total Return on Equity fairly reflects the Company's financial performance or where the Group's liabilities are not in line with Board policy.

Total Return on Equity is considered by the Board to be the key internal measure of the Group's financial performance; it is highly visible and is regularly monitored and reported. The Committee believes that:

- Linking vesting of such awards to Total Return on Equity will improve participant line-of-sight, making the long-term incentive more motivational for participants; and
- Delivering a significant element of the remuneration package in shares will help align the interests of executives with those of shareholders.

Further details are provided in the following sections.

Executive Director salaries

As at 31 March 2012, executive Directors' salaries were: Mr M J Queen, £550,000 per annum, Mr S A Borrows, £475,000 per annum and Mrs J S Wilson, £400,000 per annum. These salaries have not increased since the Directors' appointments, being January 2009 for Mr M J Queen, October 2011 for Mr S A Borrows and October 2008 for Mrs J S Wilson and are to remain unchanged for the current year.

Annual bonuses

Executive Directors are eligible for non-pensionable discretionary annual bonuses. Maximum bonus opportunities are determined by the Committee, expressed as a multiple of salary. Executive Directors' maximum bonus opportunities for the year were 400% of base salary for Mr M J Queen, 300% of base salary for Mr S A Borrows and 250% of base salary for Mrs J S Wilson. Any bonus in excess of 100% of base salary is payable in shares deferred for three years, subject to the clawback policy. Exceptional performance would be required to justify an award above 75% of the maximum.

The Committee retains discretion to make adjustments to bonus arrangements in appropriate circumstances.

Although the Chief Executive, Mr M J Queen, was a Director for the whole of the year, he asked not be considered for a bonus in respect of the year, given his decision to leave the Board following the appointment of his successor as Chief Executive.

The final bonus for the year was awarded against a balanced scorecard, with 70% of the bonus opportunity attributable to budgeted financial indicators (including Total Return on Equity, comparative gross returns, net debt and operating efficiency), 15% on strategic deliverables and 15% on personal and other internal objectives. 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 considered first and foremost the overall performance of the Company and shareholder returns. It also took into account:

- Progress made towards reshaping the business;
- A number of strong team performances;
- Work to strengthen the portfolio;
- The quality of recent investments; and
- The need to reward and retain key staff.

Mr S A Borrows (who was employed for approximately half the year) was awarded a bonus of 45% of base salary being 30% of his pro-rated maximum bonus opportunity. Mrs J S Wilson was awarded a bonus of 82.5% of base salary being 33% of her maximum bonus opportunity.

For the current year, executive Directors' annual bonuses are expected to again be determined based on a balanced scorecard. It is likely the majority of the award will continue to be based on performance against budgeted financial indicators; the balance will be based on strategic deliverables and personal objectives. The Committee intends to finalise the performance indicators as soon as practicable following the appointment of a new Chief Executive.

Long-term incentives

Executive Directors are eligible for long-term share-based incentives. Awards are determined each year by the Committee and are subject to performance conditions.

Following the review of the reward framework referred to above, the previous long-term incentive arrangements for executive Directors were changed for the grants made in the year. The changes were intended to focus executive Directors on the realisation of two core objectives, namely enhancing financial performance and reducing volatility.

Long-term incentives had previously comprised grants of share options with performance conditions linked to NAV growth and Performance Share awards with performance conditions linked to total shareholder return compared to the FTSE 100 index. During the year, the Committee decided to:

- Cease making annual share option awards to executive Directors, recognising the evolution of market practice. (The option plan remains available for use in appropriate changed or exceptional circumstances.)
- Grant Performance Share awards with a face value of 400% of base salary for the Chief Executive, 350% of salary for the Chief Investment Officer and 250% of salary for the Finance Director.
- Apply a performance condition to the Performance Share awards based on three year annualised Total Return on Equity, with any shares which satisfy the performance condition being released in instalments of 50% on the third, 25% on the fourth and 25% on the fifth anniversaries of grant, subject to the clawback policy.

In appropriate 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 S A Borrows on his appointment as a Director in recognition of awards forfeited on leaving previous employment. This award is detailed on page 85.

Clawback policy

The Remuneration 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.

Share ownership

The Company's share ownership and retention policy requires executive Directors to build up over time, and thereafter maintain, a shareholding equivalent to at least 1.5 times salary in the Company's shares.

Co-investment and carried interest plans

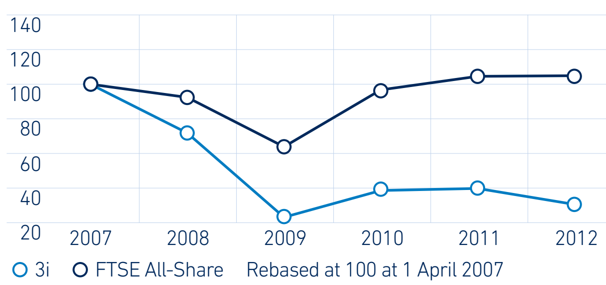
3i's co-investment and carried interest plans provide long-term incentives for senior executives other than the executive Directors. Executive Directors are not eligible to participate, although as detailed on pages 89 and 90, Mr Queen retained certain interests acquired before he became Chief Executive.

Performance graphs

TSR graph:

This graph compares the Company's total shareholder return ("3i TSR") for the five financial years to 31 March 2012 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.

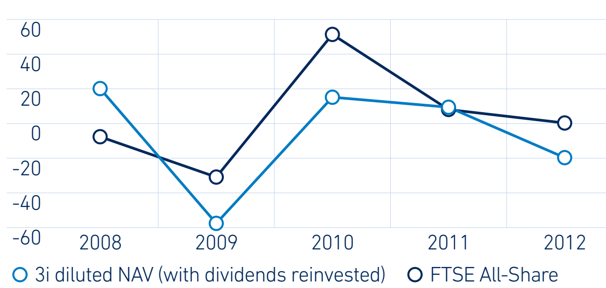
3i total shareholder return versus FTSE All-Share total return (cumulative)



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.

3i diluted NAV versus FTSE All-Share total return
% (non-cumulative)



Directors' remuneration during the year

	Salary and fees £'000	Bonus for the year £'000	(note 1) Deferred share bonus £'000	(note 2) Cash benefits £'000	(note 3) Benefits in kind £'000	**Total remuneration year to 31 March 2012 £'000**	Total remuneration year to 31 March 2011 £'000
Executive Directors							
M J Queen	550	–	–	88	2	**640**	1,302
S A Borrows (from 17 October 2011)	217	214	–	12	1	**444**	–
J S Wilson	388	330	–	12	2	**732**	802
Chairman and non-executive Directors (note 4)							
Sir Adrian Montague (Chairman)	295	–	–	–	–	**295**	260
J P Asquith	77	–	–	–	–	**77**	3
A R Cox	62	–	–	–	–	**62**	56
R H Meddings	85	–	–	–	–	**85**	70
W Mesdag	79	–	–	–	–	**79**	66
M G Verluyten (from 1 January 2012)	13	–	–	–	–	**13**	–
Former Directors							
Baroness Hogg (until 7 July 2010)	–	–	–	–	–	**–**	76
J M Allan (until 30 April 2011)	7	–	–	–	–	**7**	76
C J M Morin-Postel (until 6 July 2011)	17	–	–	–	–	**17**	59
R W A Swannell (until 1 October 2010)	–	–	–	–	–	**–**	48
Total	1,790	544	–	112	5	**2,451**	2,818

Notes:
1. No deferred share bonuses were awarded for the year to 31 March 2012.
2. "Cash benefits" for Mr Queen included car allowance (£12k), salary supplement in lieu of pension contributions (£50k) and a payment in lieu of dividends on shares released to him in the year on the vesting of the share award disclosed in note 3 on page 83 of the 2009 Remuneration Report (£25k). Cash benefits for Mr Borrows included car allowance (£5k) and salary supplement in lieu of pension contributions (£6k). Cash benefits for Mrs Wilson included car allowance (£12k).
3. "Benefits in kind" relate to the provision of health insurance.
4. Salary and fees for the Chairman and non-executive Directors include fees used to purchase 3i shares.
5. In addition to the fees shown above, Mrs J S Wilson received director's fees of £26k from Legal & General Group Plc and Mr S A Borrows received director's fees of £61k from British Land Public Limited Company and £59k from Inchcape plc.

Chairman and non-executive Director Fees

	Fees for 2011–12
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

Notes:
1. Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.
2. The fees shown above took effect from 1 April 2011 and are to remain unchanged for the current year.

Long-term incentive awards

No long-term share incentive awards or share options held by Directors vested or were exercised in the year. It should be noted that the Company's awards do not allow performance conditions to be retested after the initial three year performance period. The Committee determines the fulfilment of performance conditions based on appropriate calculations relevant to the performance condition concerned.

Long-term share awards held by Directors during the year

The performance condition has not yet been met for any of the awards shown below.

	Date of award	Held at 1 April 2011 (or appointment, if later)	Granted during the year	Lapsed during the year	**Held at 31 March 2012**	Market price on date of grant £	Date of vesting
M J Queen	06.02.09	1,127,528	–	1,127,528	**–**	2.35	06.02.12
	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
		1,870,410	793,593	1,127,528	**1,536,475**		
S A Borrows (appointed 17 October 2011)	15.11.11	–	823,917	–	**823,917**	2.02	15.11.14–16
	30.11.11	–	513,261	–	**513,261**	1.90	17.10.12–14
		–	1,337,178	–	**1,337,178**		
J S Wilson	23.06.08	75,456*	–	75,456*	**–**	8.29	23.06.11
	12.11.08	200,524	–	200,524	**–**	4.81	12.11.11
	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
		626,427	360,724	275,980	**711,171**		

* Awarded before appointment as a Director.

Notes:

1. The above awards are Performance Shares granted subject to performance conditions save for the 30 November 2011 award to Mr S A 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 vests as to one-third on 17 October 2012, one-third on 17 October 2013 and as to the balance on 17 October 2014.
2. The performance condition for pre-2011 awards 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).

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.

Directors' remuneration report

3. The performance condition for 2011 Performance Shares measured over a three year performance period, is based on annualised three year Total Return on Equity. Total Return on Equity is equivalent to growth in net asset value with dividends deemed reinvested.

Annualised three year Total Return on Equity	Percentage vesting
Below 10% pa	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 and subject to continued service and subject to 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.

Share options held by Directors during the year

	Date of grant	Held at 1 April 2011	Lapsed during the year	**Held at 31 March 2012**	Exercise price £	Earliest normal exercise date	Expiry date
M J Queen	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**			
J S Wilson	11.01.06	21,057*	–	**21,057***	5.58	11.01.09	10.01.16
	23.06.08	42,615*	42,615*	**–**	5.16	23.06.11	22.06.18
	12.11.08	401,049	401,049	**–**	2.99	12.11.11	11.11.18
	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*
		1,160,308	443,664	**716,644**			

* Awarded before appointment as a Director.
# These options lapsed following the year end.

Notes:
1. No options were granted to or exercised by Directors during the year. Options were granted for nil consideration. The performance condition has not yet been met for those options shown in italics. The market price of ordinary shares in the Company at 31 March 2012 was 214p and the range during the period 1 April 2011 to 31 March 2012 was 166.9p to 294.1p. No gains were made by the highest paid Director (2011: nil) or by the Directors in aggregate (2011: nil).
2. Options vest 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.

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 2011: Partnership Shares		Held at 31 March 2011: Matching Shares		Held at 31 March 2011: Dividend Shares		**Held at 31 March 2012: Partnership Shares**		**Held at 31 March 2012: Matching Shares**		**Held at 31 March 2012: Dividend Shares**	
	Ord	B	Ord	B	Ord	B	**Ord**	**B**	**Ord**	**B**	**Ord**	**B**
M J Queen	2,343	975	4,684	1,998	504	20	**3,038**	**975**	**6,074**	**1,998**	**704**	**20**
J S Wilson	1,652	344	3,304	690	114	4	**2,347**	**344**	**4,694**	**690**	**256**	**4**

Notes:
1. From 1 April 2012 to 1 May 2012, Mr M J Queen acquired a further 67 partnership and 134 matching ordinary shares and Mrs J S Wilson acquired a further 66 partnership and 132 matching ordinary shares.
2. Ordinary shares were awarded in the year at prices between 176p and 286p per share, with an average price of 222p per share.
3. B shares held within the plan result from the bonus issues of B shares in 2006 and 2007.
4. 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.

Pension arrangements

Mr M J Queen and Mrs J S Wilson were members of the 3i Group Pension Plan, a defined benefit contributory scheme, in the year to 31 March 2012. 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 108 and 109.

Details of Directors' entitlements under the Plan are set out below. Each of the Directors' total accrued pensions increased over the year by less than £1,000 per annum. These small increases in accrued pensions contrast with the large increases in the transfer values of the Directors' pension entitlements over the year shown in the last but one column of the table. These transfer value increases are almost entirely the result of changes in the value placed on each £1 per annum of pension by the Trustees of the Plan for transfer value purposes. This value reflects financial conditions at the time of calculation as well as actuarial assumptions and increased over the year as a result of: changes made by the Trustees of the Plan during the year to the actuarial assumptions used to calculate transfer values (principally reflecting changes in the Plan's investment strategy); changes to market conditions between the beginning and end of the year (principally a significant fall in gilt yields); and the Directors being one year older than before.

	Age at 31 March 2012	(note 1) Complete years of pensionable service at 31 March 2012	(note 2) Increase in accrued pension (excluding inflation) during the year to 31 March 2012 £'000 pa	(note 3) Total accrued pension at 31 March 2012 £'000 pa	(note 1) Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2012 £'000 pa	(note 2) Increase in accrued pension (including inflation) during the year to 31 March 2012 £'000 pa	(note 4) Transfer value of the accrued benefits at 31 March 2012 £'000	(note 4) Transfer value of the accrued benefits at 31 March 2011 £'000	Difference between transfer values at start and end of the accounting year, less Director's contribution £'000	Transfer value at the end of the year of the increase in accrued benefits during the year less Director's contribution £'000
M J Queen	50	23	(12.3)	254.2	0.0	0.9	7,573.1	4,744.7	2,828.4	(23.2)
J S Wilson	44	5	(0.1)	13.6	0.0	0.6	360.6	181.8	178.8	(1.8)

Notes:
1. The Plan closed to future accrual on 5 April 2011 and pensionable service ceased at this date. Mr Queen opted out of the Plan on 5 April 2011. 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 pensions shown are deferred pensions 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 J S Wilson became a member of the 3i Retirement Plan, a defined contribution stakeholder pension scheme, with effect from 6 April 2011. During the year the Company made contributions of £57,000 to this plan in respect of Mrs Wilson.

Directors' service contracts

The main terms of the service contracts of the executive Directors are as follows:

Dates of contracts	Mr M J Queen: Mr S A Borrows: Mrs J S Wilson:	31 March 2009 5 September 2011 8 September 2008
Notice period – by the Director – by the Company	– Six months – 12 months	Company policy is that executive Directors' notice periods should not exceed one year. Save for these notice periods, the contracts have no unexpired terms.
Termination payments	There are no provisions for compensation of executive Directors on early termination save that: (a) Mr Queen's and Mr Borrows' 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. 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

Before becoming Chief Executive Mr Queen had interests in arrangements relating to his roles as Managing Partner, Infrastructure and Managing Partner, Growth Capital. Since becoming Chief Executive in 2009, he has not been eligible for Infrastructure Incentive Plan awards or to participate in further carried interest and co-investment arrangements.

	Scheme interests, being the percentage of the bonus pool in which the participant is interested					
	Award as at 1 April 2011 (%)	Awarded in year (%)	As at 31 March 2012 %	End of period over which interests may vest	Amounts received in respect of scheme interests in year £'000	Amounts receivable in respect of scheme interests in future years £'000
M J Queen						
Infrastructure Incentive Plan						
Vintage year 2008–09	15.5	–	15.5	Fully vested	322	nil

Directors' remuneration report

	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						
	Invested during the year £'000	Total invested to 31 March 2012 £'000	As at 1 April 2011 (%)	Awarded in year (%)	Forfeited in year (%)	As at 31 March 2012 (%)	End of period over which interests may vest	Amounts receivable in respect of scheme interests vested in year £'000	**Accrued value of scheme interests as at 31 March 2012 £'000**
M J Queen									
Co-investment plans									
Global Growth Co-invest 2006–08 plans	–	97	0.023	–	–	0.023	31.07.08	nil	**nil**
Carried interest plans									
Pan-European Growth Capital 2005–06	–	–	0.44	–	–	0.44	31.03.10	125	**268**
Infrastructure 2005–06	–	–	0.69	–	–	0.69	16.05.10	221	**nil**
Primary Infrastructure 2005–06	–	–	0.53	–	–	0.53	19.08.10	nil	**161**
Global Growth 2006–08 plans	–	–	0.34	–	–	0.34	31.03.11	nil	**nil**
Combined carried interest and co-investment plans									
Global Growth 08–10	–	18	0.03	–	–	0.03	31.03.13	nil	**nil**
India Infrastructure 07–10	–	285	1.00	–	–	1.00	30.09.12	nil	**nil**

Notes:
1. Under the Infrastructure Incentive Plan executives are granted a percentage interest in a bonus pool, provided they invest certain of their own monies in 3i Infrastructure plc shares. For vintage year 2008–09, amounts were payable as follows: 50% was paid in July 2009, 25% was paid in July 2010 and the final 25% was paid in July 2011. Mr Queen will receive no further payments from the Infrastructure Incentive Plan.
2. Following his appointment as Chief Executive, Mr Queen forfeited a proportion of his interests in the Global Growth 08–10 and India Infrastructure 07–10 plans.
3. Accrued values of plan interests are calculated on the basis set out in note 5 on page 104. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to an actual payment to the participant.

Audit

The tables in this report (including the notes thereto) on pages 84 to 90 have been audited by Ernst & Young LLP.

By Order of the Board

Jonathan Asquith
Chairman, Remuneration Committee
16 May 2012

Financial statements

Our financial statements, significant accounting policies and our Independent auditor's report.

Statement of comprehensive income

for the year to 31 March

	Notes	2012 £m	2011 £m
Realised profits over value on the disposal of investments	2	**23**	124
Unrealised (losses)/profits on the revaluation of investments	3	**(498)**	325
		(475)	449
Portfolio income			
Dividends		**47**	41
Income from loans and receivables		**95**	110
Fees receivable/(payable)	4	**4**	1
Gross portfolio return	1	**(329)**	601
Fees receivable from external funds	1	**89**	67
Carried interest			
Carried interest receivable from external funds	5	**(15)**	25
Carried interest and performance fees payable	5	**10**	(63)
Operating expenses	6	**(180)**	(181)
Net portfolio return	1	**(425)**	449
Interest receivable	10	**12**	12
Interest payable	10	**(103)**	(139)
Movement in the fair value of derivatives	11	**(19)**	(1)
Exchange movements		**(243)**	(135)
Other income		**1**	3
(Loss)/profit before tax		**(777)**	189
Income taxes	12	**(6)**	(3)
(Loss)/profit for the year		**(783)**	186
Other comprehensive income			
Exchange differences on translation of foreign operations		**194**	118
Actuarial (loss)/gain	9	**(67)**	20
Other comprehensive income for the year		**127**	138
Total comprehensive (loss)/income for the year ("Total return")		**(656)**	324
Analysed in reserves as:			
Revenue		**3**	72
Capital		**(853)**	134
Translation reserve		**194**	118
		(656)	324
Earnings per share			
Basic (pence)	28	**(82.8)**	19.6
Diluted (pence)	28	**(82.8)**	19.5

Consolidated statement of changes in equity

for the year to 31 March

2012 Group	**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**
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 (loss)/income 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**

2011 Group	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
Total equity at the start of the year	717	779	43	24	145	959	482	5	(86)	3,068
Profit for the year						114	72			186
Exchange differences on translation of foreign operations					118					118
Actuarial gain						20				20
Total comprehensive income for the year	–	–	–	–	118	134	72	–	–	324
Release on forfeiture of share options				(7)			2			(5)
Ordinary dividends							(30)			(30)
Total equity at the end of the year	717	779	43	17	263	1,093	526	5	(86)	3,357

Company statement of changes in equity

for the year to 31 March

2012 Company	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
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

2011 Company	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
Total equity at the start of the year	717	779	43	20	1,328	296	5	3,188
Profit for the year					286	17		303
Total comprehensive income for the year	–	–	–	–	286	17	–	303
Release on forfeiture of share options				(3)		8		5
Ordinary dividends						(30)		(30)
Total equity at the end of the year	717	779	43	17	1,614	291	5	3,466

Further information regarding the components of equity can be found in note 26.

Statement of financial position

as at 31 March

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Assets					
Non-current assets					
Investments					
Quoted equity investments		**535**	405	**392**	332
Unquoted equity investments		**1,392**	2,134	**299**	584
Loans and receivables		**1,242**	1,454	**179**	247
Investment portfolio	13	**3,169**	3,993	**870**	1,163
Carried interest receivable		**36**	82	**24**	82
Interests in Group entities	14	**–**	–	**2,324**	2,714
Intangible assets	16	**17**	21	**–**	–
Retirement benefit surplus	9	**56**	44	**–**	–
Property, plant and equipment	17	**13**	15	**4**	4
Derivative financial instruments	20	**6**	1	**6**	1
Total non-current assets		**3,297**	4,156	**3,228**	3,964
Current assets					
Traded portfolio	13	**35**	–	**–**	–
Other current assets	18	**102**	80	**105**	258
Derivative financial instruments	20	**7**	2	**7**	2
Deposits		**441**	560	**441**	560
Cash and cash equivalents		**718**	961	**541**	836
Total current assets		**1,303**	1,603	**1,094**	1,656
Total assets		**4,600**	5,759	**4,322**	5,620
Liabilities					
Non-current liabilities					
Carried interest and performance fees payable		**(45)**	(81)	**–**	–
Loans and borrowings	21	**(1,358)**	(1,837)	**(1,152)**	(1,612)
B shares		**(6)**	(6)	**(6)**	(6)
Retirement benefit deficit	9	**(10)**	(4)	**–**	–
Derivative financial instruments	20	**(41)**	(25)	**(41)**	(25)
Deferred income taxes	12	**(4)**	(6)	**–**	–
Provisions	24	**(2)**	(4)	**–**	–
Total non-current liabilities		**(1,466)**	(1,963)	**(1,199)**	(1,643)
Current liabilities					
Trade and other payables	23	**(227)**	(198)	**(173)**	(333)
Carried interest and performance fees payable		**(40)**	(58)	**–**	–
Convertible bonds	22	**–**	(138)	**–**	(138)
Loans and borrowings	21	**(231)**	(31)	**(231)**	(31)
Derivative financial instruments	20	**–**	(9)	**–**	(9)
Current income taxes		**(3)**	(1)	**–**	–
Provisions	24	**(6)**	(4)	**–**	–
Total current liabilities		**(507)**	(439)	**(404)**	(511)
Total liabilities		**(1,973)**	(2,402)	**(1,603)**	(2,154)
Net assets		**2,627**	3,357	**2,719**	3,466
Equity					
Issued capital	25	**717**	717	**717**	717
Share premium		**780**	779	**780**	779
Capital redemption reserve	26	**43**	43	**43**	43
Share-based payment reserve	26	**11**	17	**11**	17
Translation reserve	26	**457**	263	**–**	–
Capital reserve	26	**233**	1,093	**936**	1,614
Revenue reserve	26	**491**	526	**232**	291
Other reserves		**–**	5	**–**	5
Own shares	27	**(105)**	(86)	**–**	–
Total equity		**2,627**	3,357	**2,719**	3,466

Sir Adrian Montague
Chairman
16 May 2012

Cash flow statement
for the year to 31 March

	Notes	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Cash flow from operating activities					
Purchase of investments		**(447)**	(561)	**(704)**	(594)
Proceeds from investments		**771**	609	**828**	609
Net purchase/proceeds from traded portfolio		**(17)**	–	**–**	–
Portfolio interest received		**9**	15	**3**	8
Portfolio dividends received		**44**	41	**24**	26
Portfolio fees received		**7**	1	**–**	–
Fees received from external funds		**91**	62	**–**	–
Carried interest received		**30**	17	**29**	17
Carried interest and performance fees paid		**(40)**	(54)	**–**	–
Operating expenses		**(240)**	(218)	**(85)**	(202)
Interest received		**12**	12	**11**	11
Interest paid		**(101)**	(124)	**(97)**	(110)
Income taxes paid		**(7)**	(2)	**–**	–
Net cash flow from operating activities		**112**	(202)	**9**	(235)
Cash flow from financing activities					
Purchase of own shares		**(31)**	–	**–**	–
Dividend paid		**(49)**	(30)	**(49)**	(30)
Repayment of long-term borrowings and convertible bond		**(169)**	(56)	**(169)**	(44)
Repurchase of long-term borrowings		**(201)**	(48)	**(184)**	(48)
Repurchase of convertible bonds		**–**	(249)	**–**	(249)
Net cash flow from short-term borrowings		**–**	(88)	**–**	(88)
Net cash flow from derivatives		**(5)**	(34)	**(5)**	(34)
Net cash flow from financing activities		**(455)**	(505)	**(407)**	(493)
Cash flow from investing activities					
Acquisition of subsidiary	15	**–**	(18)	**–**	–
Net cash acquired with the subsidiary	15	**–**	18	**–**	–
Purchase of property, plant and equipment		**(2)**	(5)	**–**	–
Proceeds on sale of property, plant and equipment		**1**	2	**–**	–
Net cash flow from deposits		**119**	168	**119**	153
Net cash flow from investing activities		**118**	165	**119**	153
Change in cash and cash equivalents		**(225)**	(542)	**(279)**	(575)
Cash and cash equivalents at the start of year		**961**	1,524	**836**	1,427
Effect of exchange rate fluctuations		**(18)**	(21)	**(16)**	(16)
Cash and cash equivalents at the end of year		**718**	961	**541**	836

Significant accounting policies

3i Group plc (the "Company") is a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements for the year to 31 March 2012 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 16 May 2012.

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	Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7	Amendment to offsetting financial assets and liabilities	1 January 2013
IFRS 9	Financial instruments – classification and measurement	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interest in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 12	Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19	Amendment to employee benefits	1 January 2013
IAS 27	Amendment to separate financial statements	1 January 2013
IAS 28	Amendment to Investments in associates and joint ventures	1 January 2013
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, 11, 12 and IAS 27 and 28 could have a material effect on the financial statements of the Group. The key impact is the potential consolidation of portfolio investments and funds managed by 3i in the Group financial statements. The development of these standards and industry interpretation is being closely monitored including the recent issue of an Investment Entity exposure draft which potentially exempts qualifying entities from consolidation under IFRS 10.

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, the basis of consolidation 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 are 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 including loan investments, bonds, fixed income shares and variable funding notes are included as loans and receivables. 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. Variable funding notes are used to invest in debt instruments and are carried in the balance sheet at the value derived from the bid prices of the underlying debt instruments taking into account the Group's obligations under the funding contract. 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.

(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.
- 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 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.

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, 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.

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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.

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) Convertible bonds

The convertible bonds are cash settled and are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). Subsequent to initial recognition the conversion option is measured as a derivative financial instrument with the market value of the instrument at period end used as its fair value. The remainder of the proceeds are allocated to the liability component and this amount is carried as a liability on the amortised cost basis until extinguished on conversion, redemption or repurchase.

(v) 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 enters into arrangements that are equity-settled share-based payments with certain employees. These 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.

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.

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, Debt Management and Non-core Investments. The business lines are determined with reference to market focus, geographic focus, and investment funding model.

The Private Equity business was restructured in the second half of the year to align with the Group's Leadership Team focus on the developed (US and European) markets and the developing (India, China, Latin American) markets. The Private Equity business line has been segregated accordingly.

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 2012	Private Equity Developed Markets £m	Private Equity Developing Markets £m	Total Private Equity £m	Infrastructure £m	Debt Management £m	Non-core Investments £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	16	1	17	–	1	5	23
Unrealised losses on the revaluation of investments	(405)	(76)	(481)	(7)	(3)	(7)	(498)
Portfolio income							
Dividends	26	–	26	18	2	1	47
Income from loans and receivables	93	1	94	–	1	–	95
Fees receivable/(payable)	7	(2)	5	–	–	(1)	4
	(263)	(76)	(339)	11	1	(2)	(329)
Net portfolio return							
Fees receivable from external funds	31	1	32	25	32	–	89
Carried interest receivable from external funds	(13)	–	(13)	(14)	12	–	(15)
Carried interest and performance fees payable	8	5	13	8	(11)	–	10
Operating expenses	(102)	(25)	(127)	(17)	(31)	(5)	(180)
	(339)	(95)	(434)	13	3	(7)	(425)
Net (investment)/divestment							
Realisations	740	16	756	1	–	14	771
Investment	(522)	(18)	(540)	(70)	(36)	–	(646)
	218	(2)	216	(69)	(36)	14	125
Balance sheet							
Value of investment portfolio at the end of the year	2,177	354	2,531	528	42	103	3,204

Year to 31 March 2011	Private Equity Developed Markets £m	Private Equity Developing Markets £m	Total Private Equity £m	Infrastructure £m	Debt Management £m	Non-core Investments £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	61	1	62	–	24	38	124
Unrealised profits on the revaluation of investments	229	48	277	29	8	11	325
Portfolio income							
Dividends	20	–	20	17	–	4	41
Income from loans and receivables	100	2	102	(1)	7	2	110
Fees receivable/(payable)	1	–	1	–	–	–	1
	411	51	462	45	39	55	601
Net portfolio return							
Fees receivable from external funds	39	1	40	25	2	–	67
Carried interest receivable from external funds	19	–	19	6	–	–	25
Carried interest and performance fees payable	(51)	(3)	(54)	(8)	(1)	–	(63)
Operating expenses	(125)	(22)	(147)	(23)	(5)	(6)	(181)
	293	27	320	45	35	49	449
Net (investment)/divestment							
Realisations	347	25	372	1	145	91	609
Investment	(607)	(27)	(634)	(36)	(49)	–	(719)
	(260)	(2)	(262)	(35)	96	91	(110)
Balance sheet							
Value of investment portfolio at the end of the year	2,952	442	3,394	464	14	121	3,993

1 Segmental analysis (continued)

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 (investment)/divestment						
Realisations	76	670	9	16	–	771
Investment	(133)	(469)	(18)	(26)	–	(646)
	(57)	201	(9)	(10)	–	125
Balance sheet						
Value of investment portfolio at the end of the year	1,029	1,421	278	470	6	3,204

Year to 31 March 2011	UK £m	Continental Europe £m	North America £m	Asia £m	Rest of World £m	Total £m
Gross portfolio return						
Realised profits/(losses) over value on the disposal of investments	72	59	(8)	1	–	124
Unrealised (losses)/profits on the revaluation of investments	(125)	374	20	56	–	325
Portfolio income	79	57	15	1	–	152
	26	490	27	58	–	601
Net (investment)/divestment						
Realisations	376	190	18	25	–	609
Investment	(221)	(433)	(3)	(62)	–	(719)
	155	(243)	15	(37)	–	(110)
Balance sheet						
Value of investment portfolio at the end of the year	1,071	2,060	579	277	6	3,993

2 Realised profits over value on the disposal of investments

	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

	2011 Unquoted equity £m	2011 Quoted equity £m	2011 Loans and receivables[1] £m	2011 Traded portfolio £m	2011 Total £m
Realisations	263	16	330	–	609
Valuation of disposed investments	(160)	(14)	(310)	–	(484)
Investments written off	(1)	–	–	–	(1)
	102	2	20	–	124

1 Loans and receivables include net proceeds of £145 million and realised profits of £24 million from variable funding notes relating to the Debt Warehouse in the year to 31 March 2011.

Notes to the financial statements

3 Unrealised (losses)/profits on the revaluation of investments

	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)**

	2011 Unquoted equity £m	2011 Quoted equity £m	2011 Loans and receivables £m	2011 Traded portfolio £m	2011 Total £m
Movement in the fair value of equity and traded loans	572	23	–	–	595
Provisions, loan impairments and other movements[1]	(20)	–	(250)	–	(270)
	552	23	(250)	–	325

1 Included within loan impairments is a £1 million value increase for variable funding notes relating to the Debt Warehouse in the year to 31 March 2011.

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/(payable)

	2012 £m	2011 £m
Fees receivable	**12**	6
Deal-related costs	**(8)**	(5)
	4	1

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

	2012 £m	2011 £m
Carried interest receivable from external funds	**(15)**	25
Carried interest and performance fees payable	**10**	(63)
	(5)	(38)

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:

	2012 £m	2011 £m
Depreciation of property, plant and equipment	**3**	6
Amortisation of fund management contracts	**4**	1
Audit fees	**2**	2
Staff costs (note 7)	**98**	117
Restructuring and redundancy costs	**9**	2

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:

	2012 £m	2011 £m
Audit services		
Statutory audit – Company	1.2	0.8
– UK subsidiaries	0.5	0.6
– Overseas subsidiaries	0.2	0.3
Audit-related regulatory reporting	0.1	0.2
	2.0	1.9
Non-audit services		
Other assurance services	0.1	0.2
Investment due diligence	0.4	–
Tax services (compliance and advisory services)	0.2	0.3
	2.7	2.4

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 team.

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 (2011: less than £0.1 million).

7 Staff costs

	2012 £m	2011 £m
Wages and salaries	72	90
Social security costs	12	12
Share-based payment costs (note 8)	6	3
Pension costs	8	12
	98	117

The average number of employees during the year was 472 (2011: 470).

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.

8 Share-based payments

The total cost recognised in the statement of comprehensive income is shown below:

	2012 £m	2011 £m
Share options[1]	(1)	(1)
Share awards included as operating expenses[1]	6	1
Share incentive plan	1	1
Cash settled share awards	(1)	–
Accrual for share-based bonus	1	2
	6	3

1 Credited to equity.

Notes to the financial statements

8 Share-based payments (continued)

The features of the Group's share schemes are set out on the following page. 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 2012 is £1 million (2011: £2 million). The intrinsic value of liabilities arising from share-based payment transactions which have vested by 31 March 2012 is £nil (2011: £nil).

The following information shows details of the share-based payment awards made during the year.

	Share awards	Cash settled share awards
Grant date	June 2011, July 2011, November 2011, March 2012	June 2011, December 2011, March 2012
Vesting period	1–4 years	2–3 years
Life of the award	10 years	10 years
Valuation methodology	Share price at grant	Share price at grant

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:

	2012 Number of share options	**2012 Weighted average exercise price (pence)**	2011 Number of share options	2011 Weighted average exercise price (pence)
Outstanding at the start of the year	**15,608,993**	**366**	17,778,502	436
Granted	**–**	**–**	1,525,423	295
Lapsed	**(5,869,851)**	**408**	(3,694,932)	673
Outstanding at the end of year	**9,739,142**	**341**	15,608,993	366
Exercisable at the end of year	**5,063,933**	**395**	5,900,348	395

Included within the total number of share options are options over 1 million (2011: 1 million) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002.

The range of exercise prices for options outstanding at the year end was:

Grant date: year to 31 March	**2012 Weighted average exercise price (pence)**	**2012 Number**	2011 Weighted average exercise price (pence)	2011 Number
2002	**–**	**–**	557	4,978
2003	**417**	**819,294**	417	1,060,613
2004	**355**	**1,068,850**	355	1,245,831
2005	**373**	**1,652,911**	373	1,849,686
2006	**434**	**1,522,878**	434	1,739,240
2007	**–**	**–**	–	–
2008	**–**	**–**	–	–
2009	**–**	**–**	412	4,928,164
2010	**277**	**3,149,786**	277	3,255,058
2011	**295**	**1,525,423**	295	1,525,423
	341	**9,739,142**	366	15,608,993

Options are exercisable at a price based on the market value of the Company's shares on the date of grant.

8 Share-based payments (continued)

No options were exercised during the year (2011: nil). The options outstanding at the end of the year have a weighted average contractual life of 4.67 years (2011: 6.10 years). The cost of share options is spread over the vesting period of three to five years. No options were granted during the year. The weighted average fair value of options granted during the year to 31 March 2011 was 129p, calculated using the Black-Scholes option pricing model.

Share awards

Details of share awards outstanding during the year are as follows:

	2012	2011
Outstanding at the start of the year	9,867,630	8,364,297
Granted	12,341,866	2,876,006
Exercised	(2,859,857)	(126,898)
Lapsed	(2,650,746)	(1,245,775)
Expired	–	–
Outstanding at the end of year	16,698,893	9,867,630

The awards outstanding at the end of the year have a weighted average contractual life of 8.84 years (2011: 6.21 years). The cost of share awards is spread over the vesting period of two to three years.

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

During the year share awards were made to certain investment executives. This plan operates 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 Share Investment Plan

In conjunction with the June 2009 rights issue, eligible employees could subscribe for between £5,000 and £1.5 million of ordinary shares at market price. Employees were then granted one matching share for every two ordinary shares purchased, which are normally subject to forfeiture if the employee ceases to be employed (other than for certain permitted reasons) within three years of grant. The matching shares are also subject to the condition that fully diluted NAV per share grows by 35% or more between 31 March 2009 and 31 March 2012. This condition has not been met.

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.

Notes to the financial statements

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 the benefits.

The total expense recognised in the statement of comprehensive income is £4 million (2011: £3 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.

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 2012. As the fund is now closed to future accrual measures have been taken to de-risk the fund through changes to its investment policy.

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows:

	2012	2011
Discount rate	4.6%	5.5%
Expected rate of salary increases	5.7%	5.9%
Expected rate of pension increases	3.4%	3.5%
Retail Price Index (RPI) inflation	3.2%	3.4%
Consumer Price Index (CPI) inflation	2.5%	2.7%
Expected return on the Plan assets	4.6%	6.0%

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2012 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 2011: 80% of the PNA00 tables allowing for improvements from 2000 in line with the medium cohort projections subject to a minimum annual rate of future improvement of 1.5%). The life expectancy of a male member reaching age 60 in 2032 (2011: 2031) is projected to be 33.1 (2011: 34.1) years compared to 30.6 (2011: 30.7) years for someone reaching 60 in 2012.

The amount recognised in the statement of financial position in respect of the Group's defined benefit schemes are as follows:

	2012 £m	2011 £m
Present value of funded obligations	693	587
Fair value of the Plan assets	(798)	(670)
Asset restriction	49	39
Retirement benefit surplus in respect of the Plan	(56)	(44)
Retirement benefit deficit in respect of other defined benefit schemes	10	4

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:

	2012 £m	2011 £m
Included in operating costs		
Current/past service cost	2	6
Included in finance costs (note 10)		
Expected return on the Plan assets	(40)	(37)
Interest on obligation	32	32
Included in other comprehensive income		
Actuarial loss/(gain)	56	(37)
Asset restriction	10	17
Total actuarial loss/(gain) and asset restriction	66	(20)
Total	60	(19)

9 Retirement benefits (continued)

Changes in the present value of the defined benefit obligation were as follows:

	2012 £m	2011 £m
Opening defined benefit obligation	587	593
Current/past service cost	2	6
Interest cost	32	32
Actuarial loss/(gain)	90	(29)
Contributions	–	1
Benefits paid	(18)	(16)
Closing defined benefit obligation	693	587

Changes in the fair value of the Plan assets were as follows:

	2012 £m	2011 £m
Opening fair value of the Plan assets	670	587
Expected returns	40	37
Actuarial gain	34	7
Contributions	72	55
Benefits paid	(18)	(16)
Closing fair value of the Plan assets	798	670

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:

	2012 £m	2011 £m
Equities	272	353
Corporate bonds	193	127
Gilts	332	190
Other	1	–
	798	670

The actual return on the Plan assets for the year was a gain of £74 million (2011: £44 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:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligation	693	587	593	437	515
Fair value of the Plan assets	(798)	(670)	(587)	(419)	(477)
Asset restriction	49	39	22	–	–
(Surplus)/deficit	(56)	(44)	28	18	38
Experience adjustments on the Plan liabilities	1%	(2)%	2%	2%	1%
Experience adjustments on the Plan assets	(4)%	–	16%	(26)%	(6)%

The cumulative actuarial losses recognised in other comprehensive income are £168 million (2011: £102 million). This includes £49 million (2011: £39 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 £72 million during the year, included within operating expenses in the Group cash flow statement, and the final payment of £36 million on 30 April 2012. No more additional contributions are due in relation to the funding of the deficit.

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 its 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 £4 million (2011: £10 million) and the future liability calculated by German and Spanish actuaries is £14 million (2011: £14 million). The Group has recognised cumulative actuarial losses of £1 million (2011: £nil) and £1 million (2011: £1 million) in the statement of comprehensive income in respect of these schemes.

Notes to the financial statements

10 Net interest payable

	2012 £m	2011 £m
Interest receivable		
Interest on bank deposits	**12**	12
	12	12
Interest payable		
Interest on loans and borrowings	**(109)**	(113)
Interest on convertible bonds	**(1)**	(7)
Amortisation of convertible bonds	**(1)**	(24)
Net finance (expense)/income on pension plan	**8**	5
	(103)	(139)
Net interest payable	**(91)**	(127)

11 Movement in the fair value of derivatives

	2012 £m	2011 £m
Interest-rate swaps	**(19)**	–
Call options	**(1)**	(1)
Forward foreign exchange contracts	**1**	–
	(19)	(1)

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the statement of comprehensive income. During the year, a £16 million gain (2011: £12 million loss) was recognised in exchange movements in relation to forward foreign exchange contracts.

12 Income taxes

	2012 £m	2011 £m
Current taxes		
Current year	**(8)**	(4)
Deferred taxes		
Deferred income taxes	**2**	1
Total income taxes in the statement of comprehensive income	**(6)**	(3)

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 26% (2011: 28%), and the differences are explained below:

	2012 £m	2011 £m
Profit before tax	**(777)**	189
Profit before tax multiplied by rate of corporation tax in the UK of 26% (2011: 28%)	**202**	(53)
Effects of:		
Permanent differences	**12**	7
Short-term timing differences	**(12)**	2
Non-taxable dividend income	**2**	2
Foreign tax	**(4)**	(4)
Foreign tax credits available for double tax relief	**–**	–
Realised profits, changes in fair value and impairment losses not taxable	**(206)**	43
Total income taxes in the statement of comprehensive income	**(6)**	(3)

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.

12 Income taxes (continued)

Deferred income taxes

	2012 Group £m	2011 Group £m
Opening deferred income tax liability		
Tax losses	25	17
Income in accounts taxable in the future	(26)	(19)
Deferred tax recognised on acquisition	(5)	–
	(6)	(2)
Recognised through statement of comprehensive income		
Tax losses utilised	(15)	8
Income in accounts taxable in the future	14	(7)
Amortisation of intangible asset	1	–
Other	2	–
	2	1
Closing 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)

At 31 March 2012 the Company had tax losses carried forward of £977 million (2011: £885 million). It is unlikely that the Group will generate sufficient taxable profits in the 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 24% (2011: 26%).

13 Investment portfolio

Non-current	Group 2012 Equity investments £m	Group 2012 Loans and receivables £m	Group 2012 Total £m	Group 2011 Equity investments £m	Group 2011 Loans and receivables £m	Group 2011 Total £m
Opening book value	2,539	1,454	3,993	2,130	1,387	3,517
Additions	98	512	610	169	550	719
Disposals, repayments and write-offs	(519)	(230)	(749)	(175)	(310)	(485)
Revaluation	(180)	–	(180)	595	–	595
Provisions and loan impairments	(64)	(253)	(317)	(20)	(250)	(270)
Other movements	53	(241)	(188)	(160)	77	(83)
Closing book value	1,927	1,242	3,169	2,539	1,454	3,993
Quoted	535	–	535	405	–	405
Unquoted	1,392	1,242	2,634	2,134	1,454	3,588
Closing book value	1,927	1,242	3,169	2,539	1,454	3,993

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 £163 million (2011: £158 million) of interest received by way of loan notes. A corresponding amount has been included in income from loans and receivables.

Other movements include foreign exchange and conversions from one instrument into another.

Included within the statement of comprehensive income are foreign exchange losses of £243 million (2011: £135 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 £83 million (2011: £41 million).

Notes to the financial statements

13 Investment portfolio (continued)

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.

Current	Group 2012 Traded portfolio £m	Group 2011 Traded portfolio £m
Opening book value	–	–
Additions	78	–
Disposals, repayments and write-offs	(42)	–
Revaluation	(1)	–
Other movements	–	–
Closing book value	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, variable funding note 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 variable funding note relating to the Debt Warehouse was sold during the year to 31 March 2012. It is included within the loans and receivables balance at a carrying value of £5 million at 31 March 2011. In accordance with the fair value hierarchy the variable funding note is classified as Level 3. The variable funding note had investment of £47 million, revaluation of £1 million and generated interest income and fees of £7 million in the prior year. The variable funding note also had foreign exchange movements of £3 million in the prior year.

The Group's investment portfolio for equity instruments, variable funding note and traded portfolio through Palace Street I are classified by the fair value hierarchy as follows:

	Group 2012 Level 1 £m	Group 2012 Level 2 £m	Group 2012 Level 3 £m	Group 2012 Total £m	Group 2011 Level 1 £m	Group 2011 Level 2 £m	Group 2011 Level 3 £m	Group 2011 Total £m
Quoted equity	535	–	–	535	405	–	–	405
Unquoted equity	–	–	1,392	1,392	–	–	2,134	2,134
Variable funding note	–	–	–	–	–	–	5	5
Traded portfolio	–	–	35	35	–	–	–	–
Total	535	–	1,427	1,962	405	–	2,139	2,544

	Company 2012 Level 1 £m	Company 2012 Level 2 £m	Company 2012 Level 3 £m	Company 2012 Total £m	Company 2011 Level 1 £m	Company 2011 Level 2 £m	Company 2011 Level 3 £m	Company 2011 Total £m
Quoted equity	392	–	–	392	332	–	–	332
Unquoted equity	–	–	299	299	–	–	584	584
Variable funding note	–	–	–	–	–	–	5	5
Total	392	–	299	691	332	–	589	921

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.

13 Investment portfolio (continued)

Level 3 fair value reconciliation

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Opening book value	2,139	1,835	589	498
Additions	143	212	40	58
Disposals, repayments and write-offs	(559)	(282)	(288)	(200)
Revaluation	(225)	553	(69)	233
Other movements	(71)	(179)	27	–
Closing book value	1,427	2,139	299	589

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 £40 million (2011: £104 million), dividend income of £29 million (2011: £25 million) and foreign exchange losses of £48 million (2011: £28 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 portfolio of £100 million (2011: £146 million) or 7% (2011: 7%) of total unquoted equity value.

14 Interests in Group entities

	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

Details of significant Group entities are given in note 34.

	Company 2011 Equity investments £m	Company 2011 Loans and receivables £m	Company 2011 Total £m
Opening book value	88	2,259	2,347
Additions	21	545	566
Share of profits	–	(134)	(134)
Disposals and repayments	(34)	(299)	(333)
Impairment	20	165	185
Exchange movements	–	83	83
Closing book value	95	2,619	2,714

15 Acquisition of a subsidiary

No acquisitions were made in the year ending 31 March 2012. However in the prior year, on 15 February 2011, Mizuho Investment Management (UK) Limited ("MIM"), one of the leading debt management businesses in Europe, became a subsidiary of the Group. MIM has since changed its name to 3i Debt Management Investments Limited. The acquisition formed part of the Group's strategy to build its Debt Management business line.

The acquisition of MIM was effected by 3i Debt Management Limited ("3iDM") on 15 February 2011. 3iDM paid cash consideration of £18 million for 100% of the issued share capital of MIM. The equity shares of 3iDM are owned 55% by the Group and 45% by the management team of MIM.

The Group entered into agreements to purchase this remaining 45% of the equity of 3iDM from the management team over the next five years, with the price subject to the performance of 3iDM and its subsidiaries. After the year end the Group entered into agreements to purchase 2.7% of the remaining 45% equity from a member of the management team who is no longer employed by 3iDM.

In accordance with IFRS 3, the purchase of the management team's equity holding or "earn-out" was reflected in two parts:

£13 million deferred consideration, for the transfer of the remaining 45% of the shares held by MIM management over five years. This was recognised on acquisition and is carried as a liability on the Group balance sheet.

The remaining amount is contingent on the individuals remaining in employment with 3i and 3iDM. The amount will be determined by the performance of 3iDM during the five-year period and will be recognised in the statement of comprehensive income as carried interest and performance fees payable.

Notes to the financial statements

15 Acquisition of a subsidiary (continued)

The fair value of the identifiable assets and liabilities of MIM as at 15 February 2011 (date of acquisition) and the consideration paid were:

	Fair value recognised on acquisition £m
Fair value of assets received	
Cash	18
Other assets	3
Intangible assets (fund management contracts)	22
Total fair value of assets received	43
Fair value of liabilities assumed	
Creditors	(3)
Deferred tax liability	(6)
Total fair value of liabilities assumed	(9)
Total identifiable net assets at fair value	34
Consideration	
Cash	18
Deferred consideration	13
Total consideration	31
Gain on bargain purchase	3
Net cash outflow arising on acquisition	
Cash consideration paid	(18)
Cash and cash equivalents acquired	18
Net cash flow on acquisition	–

The measurement of fair value of the net assets obtained resulted in a gain on bargain purchase of £3 million which was recognised in other income in the statement of comprehensive income in the year to 31 March 2011.

From the date of acquisition to 31 March 2011, MIM contributed £2 million to management fees, and incurred operating expenses and amortisation of the fund management contracts of £2 million, which resulted in an overall charge of £nil to the net profit before tax of the Group.

If the combination had taken place at the beginning of the year to 31 March 2011, the contribution to the Group's revenue from continuing operations would have been £16 million and the profit from continuing operations for the Group would have been £5 million.

Transaction costs of £4 million were charged to operating expenses in the prior year.

The Group also acquired equity investments in the funds managed by MIM, on which the unrealised profit on revaluation in the period to 31 March 2011 was £7 million.

16 Intangible assets

Fund management contracts	Group 2012 £m	Group 2011 £m
Opening cost	22	–
Acquisitions	–	22
Closing cost	22	22
Opening accumulated amortisation	1	–
Charge for the year	4	1
Closing accumulated amortisation	5	1
Net book amount	17	21

The fund management contracts were purchased in the period to 31 March 2011, as disclosed in note 15.

The amortisation charge for the year of £4 million (2011: £1 million) has been recognised in operating expenses in the statement of comprehensive income.

Intangible assets are only recognised in the consolidated financial statements of the Group.

17 Property, plant and equipment

Land and buildings	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Opening cost or valuation	5	5	4	4
Additions at cost	–	–	–	–
Disposals	(1)	–	–	–
Revaluation	–	–	–	–
Closing cost or valuation	4	5	4	4
Net book amount	4	5	4	4

Depreciation charged in the year on buildings was £nil (2011: £nil).

Plant and equipment	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Opening cost or valuation	32	37	–	–
Additions at cost	2	5	–	–
Disposals	(1)	(10)	–	–
Closing cost or valuation	33	32	–	–
Opening accumulated depreciation	22	24	–	–
Charge for the year	3	6	–	–
Disposals	(1)	(8)	–	–
Closing accumulated depreciation	24	22	–	–
Net book amount	9	10	–	–

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 by CBRE and Howell Brooks, independent Chartered Surveyors.

18 Other current assets

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Prepayments	6	5	–	2
Other debtors	96	75	24	24
Amounts due from subsidiaries	–	–	81	232
	102	80	105	258

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, 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 so as to maximise 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 2012 £m	Group 2011 £m
Cash, deposits and derivative financial assets	1,172	1,524
Borrowings and derivative financial liabilities	(1,636)	(2,046)
Net debt	(464)	(522)
Total equity	2,627	3,357
Gearing (net debt/total equity)	18%	16%

Notes to the financial statements

19 Financial risk management (continued)

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 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. 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.3igroup.com.

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, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with circa 41% 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.

As at 31 March 2012	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
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

As at 31 March 2011	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
Loans and receivables and Traded Portfolio before provisions and impairments	1,752	56	152	1,960	250	15	39	304
Provisions on investments that have failed or are expected to fail in the next 12 months	(47)	–	(63)	(110)	(20)	–	(21)	(41)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment	(330)	–	(66)	(396)	(2)	–	(14)	(16)
Total	1,375	56	23	1,454	228	15	4	247

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 2012 the value of the traded portfolio was £35 million and was invested in non-investment grade loans in the range B1-B3.

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 2010	(29)	(323)	(352)	(20)	(68)	(88)
Other movements	(30)	126	96	(7)	34	27
(Charged)/credited to income statement in the year[1]	(51)	(199)	(250)	(14)	18	4
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 year[2]	(68)	(186)	(254)	(15)	(12)	(27)
Balance as at 31 March 2012	**(142)**	**(553)**	**(695)**	**(34)**	**(8)**	**(42)**

1 Included within impairments for the Group and Company is a £1 million value increase for variable funding notes relating to the Debt Warehouse.
2 Included within impairments for the Group and Company is a £1 million value decrease in relation to the traded portfolio.

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 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	–	–	–	–	–
Total	356	330	687	1,106	2,479	307	321	469	1,106	2,203

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

Notes to the financial statements

19 Financial risk management (continued)

Financial liabilities (excluding forward foreign exchange contracts)

As at 31 March 2011	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	86	85	158	1,380	1,709	86	85	158	1,380	1,709
Variable loan notes	20	397	280	–	697	20	397	280	–	697
Convertible bond 2011 £430m 3.625%	142	–	–	–	142	142	–	–	–	142
Committed multi-currency facility	12	234	56	–	302	3	3	56	–	62
Interest rate swaps	4	2	2	6	14	4	2	2	6	14
Carried interest payable within one year	58	–	–	–	58	–	–	–	–	–
Total	322	718	496	1,386	2,922	255	487	496	1,386	2,624

Forward foreign exchange contracts

As at 31 March 2011	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	437	139	–	–	576	441	146	6	–	593
Gross amount payable for forward foreign exchange contracts	(445)	(141)	–	–	(586)	(449)	(148)	(6)	–	(603)
Total amount payable	(8)	(2)	–	–	(10)	(8)	(2)	–	–	(10)

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 would lead to an approximate increase in net assets of £6 million (2011: £5 million increase) for the Group and £7 million (2011: £6 million increase) for the Company. This increase arises principally from changes in interest receivable and payable on floating rate, short-term instruments, including cash and deposits in the current year. In addition the Group and Company have indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations.

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 5% movement in exchange rates against sterling. 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 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 5% movement in exchange rates against sterling:								
Impact on exchange movements in the statement of comprehensive income	n/a	71	23	16	–	–	(8)	102
Impact on the translation of foreign operations in other comprehensive income	n/a	(51)	(13)	(11)	5	4	12	(54)
Total	n/a	20	10	5	5	4	4	48

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 5% movement in exchange rates against sterling	n/a	20	6	11	1	–	5	43
Total	n/a	20	6	11	1	–	5	43

As at 31 March 2011	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	2,041	407	487	113	105	63	141	3,357
Sensitivity analysis								
Assuming a 5% movement in exchange rates against sterling:								
Impact on exchange movements in the statement of comprehensive income	n/a	74	43	20	(1)	–	(6)	130
Impact on the translation of foreign operations in other comprehensive income	n/a	(46)	(27)	(9)	6	3	12	(61)
Total	n/a	28	16	11	5	3	6	69

As at 31 March 2011	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	1,899	816	409	256	–	–	86	3,466
Sensitivity analysis								
Impact on exchange movements in the statement of comprehensive income assuming a 5% movement in exchange rates against sterling	n/a	30	16	18	–	–	4	68
Total	n/a	30	16	18	–	–	4	68

Notes to the financial statements

19 Financial risk management (continued)

(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 5% change in the fair value of those investments would have the following direct impact on the statement of comprehensive income:

	2012 Quoted equity £m	2012 Unquoted equity £m	2012 Traded portfolio £m	2012 Total £m	2011 Quoted equity £m	2011 Unquoted equity £m	2011 Traded portfolio £m	2011 Total £m
Group	27	70	2	99	20	107	–	127
Company	20	15	–	35	17	29	–	46

In addition, other price risk arises from carried interest balances.

20 Derivative financial instruments

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Non-current assets				
Forward foreign exchange contracts	6	1	6	1
	6	1	6	1
Current assets				
Forward foreign exchange contracts	7	1	7	1
Call options	–	1	–	1
	7	2	7	2
Non-current liabilities				
Forward foreign exchange contracts	(1)	(3)	(1)	(3)
Interest rate swaps	(40)	(22)	(40)	(22)
	(41)	(25)	(41)	(25)
Current liabilities				
Forward foreign exchange contracts	–	(9)	–	(9)
	–	(9)	–	(9)

Forward foreign exchange contracts

The Group continued in its use of derivatives to hedge exchange movements on its US dollar and euro portfolio.

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.

At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts was £549 million (2011: £603 million).

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 variable 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.

Derivative assets and liabilities have been reclassified for prior periods between current and non-current positions to reflect the maturity of long-dated interest rate swaps.

21 Loans and borrowings

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Loans and borrowings are repayable as follows:				
Within one year	231	31	231	31
In the second year	250	638	250	413
In the third year	50	265	–	265
In the fourth year	–	50	–	50
In the fifth year	448	–	292	–
After five years	610	884	610	884
	1,589	1,868	1,383	1,643

Principal borrowings include:

	Rate	Maturity	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £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	292	309	292	309
Other			35	62	35	62
Variable rate						
€500 million notes (public issue)	EURIBOR+0.200%	2012	231	382	231	382
Other			250	265	250	265
			1,383	1,593	1,383	1,593
Committed multi-currency facilities						
£100 million	LIBOR+2.75% to 3.00%	2012	–	69	–	–
£300 million	LIBOR+2.75%	2012	–	156	–	–
£200 million	LIBOR+3.75%	2014	50	50	–	50
£50 million	LIBOR+1.50%	2016	–	–	–	–
£450 million	LIBOR+1.00%	2016	156	–	–	–
			206	275	–	50
Total loans and borrowings			1,589	1,868	1,383	1,643

The £100 million multi-currency facility was refinanced to £50 million with maturity extended from October 2012 to April 2016. The Group has not drawn down from this facility at 31 March 2012.

The £300 million multi-currency facility was refinanced to £450 million with maturity extended from October 2012 to June 2016.

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 2012 (2011: 1.40), the Asset Cover Ratio at 31 March 2012 is 2.82 (2011: 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 £1,581 million (2011: £1,875 million), determined where applicable with reference to their published market price.

Notes to the financial statements

22 Convertible bonds

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Opening balance	138	363	138	363
Amortisation	1	24	1	24
Repurchase during the year	–	(249)	–	(249)
Repayment at maturity	(139)	–	(139)	–
Closing balance	–	138	–	138

On 29 May 2008, a £430 million three-year 3.625% convertible bond was raised. The Group share price on issue was £8.86 and the conversion price for bond holders was £11.32. Following the rights issue, the conversion price for bondholders reduced to £7.51.

On issue, part of the proceeds was recognised as a derivative financial instrument and the remaining amount recognised as a loan held at amortised cost with an effective interest rate of 8.5%. The convertible bond matured on 31 May 2011 and was repaid in full.

23 Trade and other payables

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Other accruals	227	198	46	30
Amounts due to subsidiaries	–	–	127	303
	227	198	173	333

24 Provisions

	Group 2012 Property £m	Group 2012 Redundancy £m	Group 2012 Total £m
Opening balance	7	1	8
(Release)/charge for the year	(2)	11	9
Utilised in the year	(1)	(8)	(9)
Closing balance	4	4	8

	Group 2011 Property £m	Group 2011 Redundancy £m	Group 2011 Total £m
Opening balance	12	5	17
(Release)/charge for the year	(1)	3	2
Utilised in the year	(4)	(7)	(11)
Closing balance	7	1	8

The provision for redundancy relates to staff reductions announced prior to 31 March 2012. 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.

25 Issued capital

Issued and fully paid	2012 Number	2012 £m	2011 Number	2011 £m
Ordinary shares of 73 19/22p				
Opening balance	970,650,620	717	970,381,476	717
Issued under employee share plans	418,661	–	269,144	–
Closing balance	971,069,281	717	970,650,620	717

During the year to 31 March 2012, no options to subscribe for ordinary shares were exercised (2011: nil).

26 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. The Company's Articles of Association provide that these profits are not distributable by way of dividend.

Revenue reserve

The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

27 Own shares

	2012 £m	2011 £m
Opening cost	86	86
Additions	31	–
Disposals	(12)	–
Closing cost	105	86

Own shares consists of shares in 3i Group plc held by the 3i Group Employee Trust. As at 31 March 2012 the Trust held 32,968,465 shares in 3i Group plc (2011: 19,631,587). The market value of these shares at 31 March 2012 was £71 million (2011: £59 million). The Trust is funded by an interest-free loan from 3i Group plc.

28 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	2012	2011
Earnings per share (pence)		
Basic	(82.8)	19.6
Diluted	(82.8)	19.5
Earnings (£m)		
(Loss)/profit for the year attributable to equity holders of the Company	(783)	186

As at 31 March	2012	2011
Weighted average number of shares in issue		
Ordinary shares	970,832,567	970,513,394
Own shares	(25,156,748)	(19,660,791)
	945,675,819	950,852,603
Effect of dilutive potential ordinary shares		
Share options and awards	2,245,376	3,486,081
Diluted shares	947,921,195	954,338,684

As at 31 March	2012	2011
Net assets per share (£)		
Basic	2.80	3.53
Diluted	2.79	3.51
Net assets (£m)		
Net assets attributable to equity holders of the Company	2,627	3,357

As at 31 March	2012	2011
Number of shares in issue		
Ordinary shares	971,069,281	970,650,620
Own shares	(32,968,465)	(19,631,587)
	938,100,816	951,019,033
Effect of dilutive potential ordinary shares		
Share options and awards	2,827,365	4,600,795
Diluted shares	940,928,181	955,619,828

Notes to the financial statements

29 Dividends

	2012 pence per share	2012 £m	2011 pence per share	2011 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	2.4	23	2.0	19
Interim dividend	2.7	26	1.2	11
	5.1	49	3.2	30
Proposed final dividend	5.4	51	2.4	23

30 Operating leases

Leases as lessee

Future minimum payments due under non-cancellable operating lease rentals are as follows:

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Less than one year	9	11	–	–
Between one and five years	26	36	–	–
More than five years	27	25	–	–
	62	72	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2012 £10 million (2011: £6 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 (2011: £nil). The total future sublease payments expected to be received under non-cancellable subleases is £3 million (2011: £3 million).

31 Commitments

	Group 2012 due within 1 year £m	Group 2012 due 2–5 years £m	Group 2012 due over 5 years £m	Group Total £m	Group 2011 due within 1 year £m	Group 2011 due 2–5 years £m	Group 2011 due over 5 years £m	Group Total £m
Equity and loan investments	38	13	–	51	6	2	–	8

	Company 2012 due within 1 year £m	Company 2012 due 2–5 years £m	Company 2012 due over 5 years £m	Company Total £m	Company 2011 due within 1 year £m	Company 2011 due 2–5 years £m	Company 2011 due over 5 years £m	Company Total £m
Equity and loan investments	38	8	–	46	1	–	–	1

Commitments above represent commitments made by the Group and Company to portfolio companies only, the prior period has been restated to reflect this. For commitments to funds managed and advised by the Group refer to page 20.

32 Contingent liabilities

	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	37	5	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 2012, 3i Holdings plc had drawn down £206 million (March 2011: £225 million) under these facilities.

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 2012 was £150 million.

At 31 March 2012, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

33 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:

Statement of comprehensive income	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Carried interest receivable	(24)	25	(24)	25
Fees receivable from external funds	41	47	–	–

Statement of financial position	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Carried interest receivable	27	82	27	82

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:

Statement of comprehensive income	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Realised (loss)/profit over value on the disposal of investments	(4)	9	15	17
Unrealised (losses)/profits on the revaluation of investments	(370)	313	(57)	245
Portfolio income	122	136	37	35

Statement of financial position	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Quoted equity investments	480	321	377	321
Unquoted equity investments	853	1,633	169	507
Loans and receivables	1,141	1,294	121	201

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:

Statement of comprehensive income	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Unrealised profits on the revaluation of investments	22	21	22	21
Fees receivable from external funds	17	17	–	–
Dividends	18	16	18	16

Statement of financial position	Group 2012 £m	Group 2011 £m	Company 2012 £m	Company 2011 £m
Quoted equity investments	375	320	375	320

Notes to the financial statements

33 Related parties (continued)

Key management personnel

The Group's key management personnel comprise the members of the Leadership Team, and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

Statement of comprehensive income	Group 2012 £m	Group 2011 £m
Salaries, fees, supplements and benefits in kind	7	6
Bonuses and deferred share bonuses[1]	3	6
Increase in accrued pension	–	–
Carried interest and performance fees payable	6	15
Share-based payments	3	1
Termination benefits[2]	1	–

1 For further detail, see Directors' remuneration report, page 81.
2 No termination benefits were paid to executive Directors during the year.

Statement of financial position	Group 2012 £m	Group 2011 £m
Bonuses and deferred share bonuses	4	8
Carried interest and performance fees payable within one year	4	8
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 in the prior year, set out in note 15.

Carried interest paid in the year to key management personnel was £6 million (2011: £16 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 (2011: £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 £86 million (2011: £151 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 2012 to £nil (2011: £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 (2011: £nil).

34 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	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	375 Park Avenue Suite 3001 New York NY 10152, USA
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 2012 all of which were wholly-owned, with the exception of 3i Debt Management Limited, which is 55% owned and is in turn the 100% owner of 3i Debt Management Investments Limited. The Group has entered into agreements to purchase the remaining 45% of the equity of 3i Debt Management Limited, currently owned by management, over the next five 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 2012, the entire issued share capital of 3i Holdings plc and 55% 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 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 2012 which comprise the Statement of comprehensive income, the Group and parent company Statement of changes in equity, the Group and parent company Statements of financial position, the Group and parent company Cash flow statements and the related notes 1 to 34. 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 Directors' responsibilities statement set out on page 73, 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 the 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 of the parent company's affairs as at 31 March 2012 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- 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 73, 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 shareholders by the Board on Directors' remuneration.

Andrew McIntyre (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 May 2012

Portfolio

Information on the composition of our portfolio and how we determine the value of our portfolio.

Portfolio valuation – an explanation

The Group's valuation policy is the responsibility of the Board, with additional oversight from the Board's Valuations Committee. This section sets out our valuation policy in detail and explains how we value investments in each of our business lines.

Policy

Our policy is to value 3i's investment portfolio at fair value and achieve this by valuing individual investments on an appropriate basis using a consistent approach across the portfolio. The Group's valuation policy is the responsibility of the Board and is reviewed by the Board's Valuations Committee at least annually. 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 at which an orderly transaction would take place between market participants at the reporting date" (IPEV guidelines, September 2009). 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 on 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 transactions. As unquoted investments are not traded on an active market, as quoted investments are, 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 page 132 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 using one of the methodologies outlined in the table on page 132, 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, 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.

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.

Currently, the Group's investment in the Infrastructure business line predominantly consists of the investment in the quoted vehicle, 3i Infrastructure plc, and the unquoted portfolio in the 3i India Infrastructure Fund. These vehicles use DCF as the primary method of valuing their underlying portfolio.

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 are valued using an average of broker quotes available, reflecting the best available market observable data.

The subordinated notes that it is required to hold in the debt funds are also valued using average broker quotes in the first instance. Where broker quotes are unavailable or deemed unreliable, ie 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 net asset value of the fund can be used to determine the valuation of the equity investment.

Portfolio valuation – an explanation

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, and for significant corporate actions, 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, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and, where possible, in the same geographic region – We track the multiple paid at our initial investment against this set of comparable companies, taking into account a relative premium or discount where the underlying risk and earnings growth rate support that relative ranking – 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	17%
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	<1%
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 as in the case of an earnings multiple 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	8%
Broker quotes (Debt Management/ Infrastructure)	Used to value debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned	No discount is applied	1%
Net assets (Private Equity)	Used for businesses that are loss making, or where the probability of liquidation is high	Assets are valued at the best estimate of the proceeds in a liquidation scenario	A discount is applied to reflect the uncertainty over the ultimate outcome	0%
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	No further discount is applied	2%

For a small proportion of our smaller investments (less than 3% of the portfolio), 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.

Portfolio composition

3i direct portfolio by business line (£m)

	31 March 2012	31 March 2011
Private Equity		
Developed Markets	2,177	2,952
Developing Markets	354	442
Total Private Equity	2,531	3,394
Infrastructure	528	464
Debt Management	42	14
Non-core	103	121
Total	3,204	3,993

3i direct portfolio by geography (£m)

	31 March 2012	31 March 2011[2]
Continental Europe	1,421	2,060
UK	1,029	1,071
India	228	277
China	111	127
Other Asia[1]	131	175
The Americas	278	277
Rest of World	6	6
Total	3,204	3,993

1 Includes Japan and Singapore.
2 One asset has been reclassified from Other Asia to China.

3i direct continental European portfolio value (£m)

	31 March 2012	31 March 2011
Benelux	286	406
France	228	153
Germany/Austria/Switzerland	418	566
Italy	6	10
Nordic	232	459
Spain	178	389
Other European[1]	73	77
Total	1,421	2,060

1 Other European includes investments in countries where 3i did not have an office at 31 March 2012.

Portfolio composition

3i direct portfolio value by sector (£m)

	31 March 2012	31 March 2011
Business and Financial Services	782	877
Consumer	537	449
Industrials and Energy	828	1,491
Healthcare	335	483
TMT	194	229
Infrastructure	528	464
Total	**3,204**	3,993

3i direct portfolio value by valuation method (£m)

	31 March 2012	31 March 2011
Imminent sale or IPO	8	594
Quoted	535	405
Earnings	2,128	2,345
Net assets	–	4
Fund	18	5
Industry metric	152	174
DCF	231	216
Broker quotes	42	14
Other	90	236
Total	**3,204**	3,993

3i direct Private Equity portfolio value by valuation method (£m)

	31 March 2012	31 March 2011
Imminent sale or IPO	4	594
Quoted	131	29
Earnings	2,037	2,242
Net assets	–	2
Fund	17	5
Industry metric	152	174
DCF	108	142
Other	82	206
Total	**2,531**	3,394

3i direct Infrastructure portfolio value by valuation method (£m)

	31 March 2012	31 March 2011
Quoted	403	374
DCF	123	73
Other	2	17
Total	**528**	464

3i direct Debt Management portfolio value by valuation method (£m)

	31 March 2012	31 March 2011
Broker quotes	42	14
Total	**42**	14

3i direct Non-core portfolio value by valuation method (£m)

	31 March 2012	31 March 2011
Imminent sale or IPO	4	–
Quoted	1	2
Earnings	92	103
Net assets	–	2
Other	6	14
Total	**103**	121

For details of investments by business line, please see page 27.
For details of realisations by business line, please see page 28.

Fifty large investments

The investments listed in these tables are substantially all of the Group's investments over £13 million. They do not include four investments that have been excluded for commercial reasons.

Investment	Description of business	Business line	Geography
3i Infrastructure plc 3i-infrastructure.com	Quoted investment company, investing in infrastructure	Infrastructure	UK
Peer Holdings BV (Action) action.nl	Non-food discount retailer	Private Equity	Benelux
ACR Capital Holdings Pte Ltd asiacapitalre.com	Reinsurance in large risk segments	Private Equity	Singapore
Mold-Masters Luxembourg Holdings S.A.R.L. moldmasters.com	Plastic processing technology provider	Private Equity	Canada
Eco US Holdings Inc (HILITE) hilite.com	Fluid control component provider	Private Equity	Germany
Foster + Partners fosterandpartners.com	Architectural services	Private Equity	UK
Mayborn Group Limited mayborngroup.com	Manufacturer and distributor of baby products	Private Equity	UK
NORMA Group Holding GmbH[3] normagroup.com	Provider of engineered joining technology	Private Equity	Germany
Element Materials Technology element.com	Testing and inspection	Private Equity	Benelux
Scandferries Holding GmbH (Scandlines)[4] scandlines.de	Ferry operator in the Baltic Sea	Private Equity	Germany
43% of total portfolio value			
Quintiles Transnational Corporation quintiles.com	Clinical research outsourcing solutions	Private Equity	US
Mémora Servicios Funerarias memora.es	Funeral service provider	Private Equity	Spain
Eltel Networks Oy eltelnetworks.com	Network Services maintenance	Private Equity	Finland
Cornwall Topco Limited (Civica) civica.co.uk	Public sector IT and services	Private Equity	UK
Etanco etanco.eu	Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity	France
AES Engineering Limited aesseal.co.uk	Manufacturer of mechanical seals and support systems	Private Equity	UK
Navayuga Engineering Company Limited[4] necltd.com	Engineering and construction	Private Equity	India
Tato Holdings Limited thor.com	Manufacturer and sales of speciality chemicals	SMi	UK
Azelis Holding S.A. azelis.com	Distributor of speciality chemicals, polymers and related services	Private Equity	Benelux
Amor GmbH amor.de	Distributor and retailer of affordable jewellery	Private Equity	Germany
63% of total portfolio value			

1 "First invested in" is calendar year.
2 The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at investment.
3 3i realised £74 million upon the IPO of NORMA in April 2011.
4 Valued using a combination of DCF and earnings and classified here as DCF.

First[1] invested in	Valuation basis	Proportion of equity shares held %	Residual cost March 2011 £m	Residual cost March 2012 £m	Valuation March 2011 £m	Valuation March 2012 £m
2007	Quoted	34.1	270	302	320	375
2011	Earnings	35.9	n/a	115	n/a	143
2006	Industry metric	31.1	105	105	146	118
2007	Earnings	49.3	75	75	86	115
2011	Earnings	21.9	n/a	99	n/a	115
2007	Earnings	40.0	[2]	[2]	132	112
2006	Earnings	44.7	89	103	95	105
2006	Quoted	21.1	33	0	197	103
2010	Earnings	42.2	56	63	57	90
2007	DCF	27.3	45	39	102	89
					1,135	**1,365**
2008	Earnings	4.9	74	74	108	86
2008	Earnings	34.7	109	116	118	74
2007	Earnings	42.6	85	85	82	68
2008	Earnings	40.2	90	92	60	68
2012	Earnings	30.3	n/a	72	n/a	67
1996	Earnings	40.6	30	30	51	63
2006	DCF	10.0	23	23	66	61
1990	Earnings	26.1	2	2	62	59
2007	Earnings	36.5	49	51	84	56
2010	Earnings	42.1	48	46	50	55
					1,816	**2,022**

Fifty large investments

Investment	Description of business	Business line	Geography
OneMed Group	Distributor of consumable medical products, devices and technology	Private Equity	Sweden
Phibro Animal Health Corporation	Animal healthcare	Private Equity	US
Trescal	Calibration services	Private Equity	France
Lekolar AB	Distributor of pedagogical products and educational materials	Private Equity	Sweden
Palace Street I	Debt Management (Credit Opportunities Fund)	Debt Management	UK
Hyperion Insurance Group Limited	Specialist insurance intermediary	Private Equity	UK
Everis Participaciones S.L.	IT consulting business	Private Equity	Spain
Krishnapatnam Port	India Port	Infrastructure	India
LHI Technology Private Limited	Medical cable assemblies	Private Equity	China
Lakeside Network Investments	Electricity distribution	Infrastructure	Finland
Polyconcept Investments BV	Supplier of promotional products	Private Equity	Benelux
Adani Power	Power generation	Infrastructure	India
Otnortopco AS (Xellia/alpharma)	Developer and supplier of specialist active pharmaceutical ingredients	Private Equity	Norway
BVG India Ltd	Business Services	Private Equity	India
Labco SA	Diagnostics laboratories	Private Equity	France
Soya Concept A/S	Fashion design company	Private Equity	Denmark
SLR Management Limited	Specialist environmental consultancy	Private Equity	UK
Loxam Holdings	Professional equipment rental	Private Equity	France
Touch Tunes Interactive Networks	Out of home interactive media and entertainment network	Private Equity	US
GVK Energy	Power generation	Infrastructure	India
Environmental Scientifics Group	Testing, inspection and compliance	Private Equity	UK
MKM Building Supplies (Holdings) Limited	Builders' merchant	Private Equity	UK
Consultim Finance SAS	Wholesaler of rental real estate	Private Equity	France
Joyon Southside	Real estate	Private Equity	China
Refresco Group B.V.	Manufacturer of private label juices and soft drinks	Private Equity	Benelux
KMC Roads	Engineering, procurement and construction services	Infrastructure	India
UFO Moviez	Provider of digital cinema services	Private Equity	India
Gain Capital	Retail online forex trading	Private Equity	US
Franklin Offshore Holdings Pte Limited	Manufacture, installation and maintenance of mooring and rigging equipment	Private Equity	Singapore
Inspecta	Supplier of testing, inspection and certification services	Private Equity	Finland
87% of total portfolio value			

1 "First invested in" is calendar year.

First[1] invested in	Valuation basis	Proportion of equity shares held %	Residual cost March 2011 £m	Residual cost March 2012 £m	Valuation March 2011 £m	Valuation March 2012 £m
2011	Earnings	30.5	89	93	91	46
2009	Earnings	29.9	90	89	54	41
2010	Earnings	23.5	27	31	32	38
2007	Earnings	33.3	28	30	33	36
2011	Broker quotes	n/a	n/a	36	n/a	35
2008	Industry metric	19.1	22	21	28	34
2007	Earnings	18.3	30	30	36	31
2009	DCF	3.0	24	24	31	31
2008	Earnings	37.5	16	16	41	30
2012	DCF	5.7	n/a	28	n/a	29
2005	Earnings	13.0	21	43	25	29
2007	Quoted	1.6	25	25	54	28
2007	Earnings	30.4	77	86	60	27
2011	Earnings	19.6	21	21	20	25
2008	Earnings	12.3	65	66	57	24
2007	Earnings	45.0	13	13	27	23
2008	Earnings	25.9	22	23	23	23
2011	Earnings	3.8	n/a	21	n/a	23
2011	Earnings	9.4	n/a	18	n/a	22
2010	DCF	2.3	15	23	15	22
2007	Earnings	38	27	32	41	21
1998	Earnings	30.3	14	15	23	21
2007	Earnings	20.0	12	24	24	20
2007	DCF	49.9	15	8	25	20
2010	Earnings	10.7	46	46	47	17
2011	DCF	6.7	15	15	15	16
2007	Earnings	27.6	14	11	32	14
2008	Quoted	10.1	24	24	20	13
2007	Other	30.9	12	12	29	13
2007	Earnings	39.2	51	51	23	13
					2,722	**2,787**

Information for shareholders

Financial calendar

Ex-dividend date	20 June 2012
Record date	22 June 2012
Annual General Meeting*	29 June 2012
Final dividend to be paid	20 July 2012
Half-year results (available online only)	November 2012
Interim dividend expected to be paid	January 2013

* The 2012 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 29 June 2012 at 10.30am. For further details please see the Notice of Annual General Meeting 2012.

Information on ordinary shares

Shareholder profile: Location of investors at 31 March 2012

UK	78.5%
North America	8.7%
Continental Europe	9.7%
Other international	3.1%

Share price

Share price at 31 March 2012	214.0p
High during the year (17 May 2011)	294.1p
Low during the year (19 December 2011)	166.9p

Dividends paid in the year to 31 March 2012

2010/2011 Final dividend, paid 15 July 2011	2.4p
2011/2012 Interim dividend, paid 11 January 2012	2.7p

Balance analysis summary

	Number of holdings Individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2012	%
1 – 1,000	16,304	814	7,959,417	0.82
1,001 – 10,000	6,225	1,204	17,518,245	1.80
10,001 – 100,000	185	353	16,914,945	1.74
100,001 – 1,000,000	20	276	105,696,516	10.89
1,000,001 – 10,000,000	0	125	360,363,991	37.11
10,000,001 – highest	0	23	462,616,167	47.64
Total	**22,734**	**2,795**	**971,069,281**	**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 2012.

Unsolicited telephone calls

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 Services Authority ("FSA") Register and is allowed to give financial advice before handing over your money. You can check at www.fsa.gov.uk/pages/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 FSA Register. This is important as the FSA has seen 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 FSA's list of known unauthorised overseas firms at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml. 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 FSA Register;
- if you have any doubts, call the FSA Consumer Helpline on 0845 606 1234 with details, or complete the Unauthorised Firms Reporting Form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. More detailed information on this or similar activity can be found on the FSA website at www.moneymadeclear.org.uk. You should also report any approach to Operation Archway, an initiative by the City of London Police in conjunction with the FSA, the Serious Fraud Office, the Serious Organised Crime Agency and police forces within the UK, by email to: operationarchway@cityoflondon.pnn.police.uk.

Annual 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 2012 half-yearly report will only be available online. Please register to ensure you are notified when it becomes available.

More general information on electronic communications is available on our website at www.3igroup.com/e-comms

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:

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Fax +44 (0)20 7928 0058
email ir@3igroup.com

or visit our Investor relations website, www.3igroup.com, for full up-to-date investor relations information, including the latest share price, Reporting centre, 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
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www.3igroup.com
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