17 May 2012

3i Group plc announces full year results to 31 March 2012

(**Preliminary results for the year to 31 March 2012)**

Key points

- Appointment of Simon Borrows as the new Chief Executive with a clear mandate to address the performance of the Group
- Subject to shareholder approval, a significant increase in the dividend to bring the total dividend for the year to 8.1p
- Further strengthen the distribution policy giving shareholders a direct share in the success of the Group's realisation activities.

3i's Chairman, Sir Adrian Montague, said: "We are delighted to announce the appointment of Simon as Chief Executive. He has already made a significant positive impact as Chief Investment Officer, bringing a fresh focus and discipline to 3i's investment processes."

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

	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.

For further information, please contact:

Patrick Dunne, 3i Group plc	Tel: 020 7975 3283
Kathryn van der Kroft Press Office	Tel: 020 7975 3021
Guy Lamming Finsbury	Tel: 020 7251 3801

For further information regarding the announcement of 3i's annual results to 31 March 2012, including a live videocast of the results presentation from 09:45am, please see www.3igroup.com.

Notes to editors

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

Our rich mix of international relationships, extensive experience, on-the-ground knowledge and capital enables us to identify market-leading businesses and contribute to their success. Working in partnership, we support these companies in achieving their goals. Through combining these attributes, we create value for all our stakeholders. www.3i.com

Notes to the announcement of the results

Note 1
The statutory accounts for the year to 31 March 2012 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2011 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any matters to which the auditor drew attention by way of emphasis or any statements under section 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2
Copies of the Report and accounts 2012 will be distributed to shareholders on or soon after 23 May 2012.

Note 3
This announcement may contain certain statements about the future outlook for 3i Group plc and its subsidiaries. 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.

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%

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.

Chairman’s statement

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

Chief Executive's review

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).

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 20% 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

Group overview

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

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.

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 sections in our Annual report, 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.

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.

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 of our Annual report.

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.

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.

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 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.

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.

Investment and realisations

Table 1: **Investment activity – own balance sheet and external funds**

	3i own balance sheet		External funds	
	2012	2011	**2012**	2011
year to 31 March	**£m**	£m	**£m**	£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 5. 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 2: **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 3: **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 4: **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

Table 5: **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 6: **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 7: **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 8: **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 9: **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 investments 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, valued 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.

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, which were considered in the prior year.

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 5).

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 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. Table 10 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.

Table 10: **Portfolio earnings growth**

	3i carrying value at 31 March 2012 (£m)	Number of companies
<(20)%	138	14
(20)-(11)%	118	7
(10)-(1)%	219	8
0-9%	866	16
10-20%	206	10
>20%	779	18

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). Table 11 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.

Table 11: **Ratio of net debt to EBITDA – Private Equity portfolio weighted by March 2012 carrying values** as at 31 March 2012

	£m
<1x	587
1-2x	315
2-3x	538
3-4x	453
4-5x	319
5-6x	187
>6x	88

The repayment profile of the debt in the portfolio is shown in Table 12. 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 Table 12, and plans are underway to either refinance or exit these investments.

Table 12: Debt repayment profile – Private Equity portfolio Repayment index weighted by 3i carrying values as at 31 March 2012

	%
2012	4
2013	7
2014	23
2015	13
2016	7
2017	3
2018 or later	43

Portfolio and performance – Developed Markets

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.

Performance

Table 13: **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.

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
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).

Performance

Table 14: **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.

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.

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.

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.

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.

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.

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, 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.

Infrastructure performance

Table 15: **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

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.

Table 16: 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 £11 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 17: **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 18: **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 earning 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 19: **Movement in earnings and multiples**[1]

year to 31 March	**% change**	**2012** **Equity value impact** **£m**	% change	2011 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 20: **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 21: **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 22: **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 23: **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.

Portfolio value

Portfolio assets directly owned by the Group

Table 24: **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 25: **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

Risk factors

Risk type: External
Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group's operations.

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

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

Key developments
- Continuing uncertain economic conditions, particularly in Europe
- Regulatory developments which may impose additional costs

Risk type: Strategic
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
- 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
- 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
- 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

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

Inherent risks
- 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
- Over exposure to a particular sector, geography or small number of assets
- Investment performance track record
- Reputational risks arising from portfolio related events

Risk mitigation
- 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

Key developments
- 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

Risk type: 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.

Inherent risks
- 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

Risk mitigation
- 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

Key developments
Continued uncertainty and dislocation within the Eurozone.

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

Inherent risks
- 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

Risk mitigation
- 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

Key developments
- 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

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**	1
Gross portfolio return	1	**(329)**	601
Fees receivable from external funds	1	**89**	67
Carried interest			
Carried interest receivable from external funds		**(15)**	25
Carried interest and performance fees payable		**10**	(63)
Operating expenses		**(180)**	(181)
Net portfolio return	1	**(425)**	449
Interest receivable	4	**12**	12
Interest payable	4	**(103)**	(139)
Movement in the fair value of derivatives	5	**(19)**	(1)
Exchange movements		**(243)**	(135)
Other income		**1**	3
(Loss)/profit before tax		**(777)**	189
Income taxes	6	**(6)**	(3)
(Loss)/profit for the year		**(783)**	186
Other comprehensive income			
Exchange differences on translation of foreign operations		**194**	118
Actuarial (loss)/gain		**(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)	8	**(82.8)**	19.6
Diluted (pence)	8	**(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

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		**3,169**	3,993	**870**	1,163
Carried interest receivable		**36**	82	**24**	82
Interests in Group entities		-	-	**2,324**	2,714
Intangible assets		**17**	21	**-**	-
Retirement benefit surplus		**56**	44	**-**	-
Property, plant and equipment		**13**	15	**4**	4
Derivative financial instruments		**6**	1	**6**	1
Total non-current assets		**3,297**	4,156	**3,228**	3,964
Current assets					
Traded portfolio		**35**	-	**-**	-
Other current assets		**102**	80	**105**	258
Derivative financial instruments		**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	7	**(1,358)**	(1,837)	**(1,152)**	(1,612)
B shares		**(6)**	(6)	**(6)**	(6)
Retirement benefit deficit		**(10)**	(4)	**-**	-
Derivative financial instruments		**(41)**	(25)	**(41)**	(25)
Deferred income taxes	6	**(4)**	(6)	**-**	-
Provisions		**(2)**	(4)	**-**	-
Total non-current liabilities		**(1,466)**	(1,963)	**(1,199)**	(1,643)
Current liabilities					
Trade and other payables		**(227)**	(198)	**(173)**	(333)
Carried interest and performance fees payable		**(40)**	(58)	**-**	-
Convertible bonds		-	(138)	-	(138)
Loans and borrowings	7	**(231)**	(31)	**(231)**	(31)
Derivative financial instruments		-	(9)	**-**	(9)
Current income taxes		**(3)**	(1)	**-**	-
Provisions		**(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		**717**	717	**717**	717
Share premium		**780**	779	**780**	779
Capital redemption reserve		**43**	43	**43**	43
Share-based payment reserve		**11**	17	**11**	17
Translation reserve		**457**	263	**-**	-
Capital reserve		**233**	1,093	**936**	1,614
Revenue reserve		**491**	526	**232**	291
Other reserves		-	5	**-**	5
Own shares		**(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

	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	**-**	(18)	-	-
Net cash acquired with the subsidiary	**-**	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

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, fee's receivable from the management of external funds and the associated costs of the business lines. 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 Invest-ments £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**

1 Segmental analysis (continued)

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 Invest-ments £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

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**

1 Segmental analysis (continued)

Year to 31 March 2011	UK £m	Continental Europe £m	The Americas £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.

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	2012 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 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)

5 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: £12million loss) was recognised in exchange movements in relation to forward foreign exchange contracts.

6 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 Group £m	2011 Group £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.

Deferred income taxes

	2012 £m	2011 £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%).

7 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.

8 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

9 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

10 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

10 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.
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).

20 large investments

Investment Website Description of business	Business line Geography First invested in[1] 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
3i Infrastructure plc 3i-infrastructure.com Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	34.1	270	302	320	375
Peer Holdings BV (Action) action.nl Non-food discount retailer	Private Equity Benelux 2011 Earnings	35.9	n/a	115	n/a	143
ACR Capital Holdings Pte Limited asiacapitalre.com Reinsurance in large risk segments	Private Equity Singapore 2006 Industry metric	31.1	105	105	146	118
Mold-Masters Luxembourg Holdings S.A.R.L. moldmasters.com Plastic processing technology provider	Private Equity Canada 2007 Earnings	49.3	75	75	86	115
Eco US Holdings Inc (HILITE) hilite.com Fluid control component provider	Private Equity Germany 2011 Earnings	21.9	n/a	99	n/a	115
Foster + Partners fosterandpartners.com Architectural services	Private Equity UK 2007 Earnings	40.0	[2]	[2]	132	112
Mayborn Group Limited maybborngroup.com Manufacturer and distributor of baby products	Private Equity UK 2006 Earnings	44.7	89	103	95	105
NORMA Group Holding GmbH[3] normagroup.com Provider of engineered joining technology	Private Equity Germany 2006 Quoted	21.1	33	0	197	103
Element Materials Technology element.com Testing and inspection	Private Equity Benelux 2010 Earnings	42.2	56	63	57	90
Scandferries Holding GmbH (Scandlines)[4] scandlines.de Ferry operator in the Baltic Sea	Private Equity Germany 2007 DCF	27.3	45	39	102	89
Quintiles Transnational Corporation quintiles.com Clinical research outsourcing solutions	Private Equity US 2008 Earnings	4.9	74	74	108	86
Mémora Servicios Funerarias memora.es Funeral service provider	Private Equity Spain 2008 Earnings	34.7	109	116	118	74
Eltel Networks Oy eltelnetworks.com Network services maintenance	Private Equity Finland 2007 Earnings	42.6	85	85	82	68
Cornwall Topco Limited (Civica) civica.co.uk Public sector IT and services	Private Equity UK 2008 Earnings	40.2	90	92	60	68
Etanco etanco.eu Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity France 2012 Earnings	30.3	n/a	72	n/a	67
AES Engineering Limited aesseal.co.uk Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Other	40.6	30	30	51	63

20 large investments continued

Investment Website Description of business	Business line Geography First invested in[1] 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
Navayuga Group[4] necltd.com Engineering and construction	Private Equity India 2006 DCF	10.0	23	23	66	61
Tato Holdings Limited thor.com Manufacture and sale of speciality chemicals	SMI UK 1990 Earnings	26.1	2	2	62	59
Azelis Holding S.A. Azelis.com Distributor of speciality chemicals, polymers and related services	Private Equity Benelux 2007 Earnings	36.5	49	51	84	56
Amor GmbH amor.de Distributor and retailer of affordable jewellery	Private Equity Germany 2010 Earnings	42.1	48	46	50	55
63% of total portfolio value					**1,816**	**2,022**

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 £74m upon the IPO of Norma in April 2011.
4. Valued using a combination of DCF and earnings and classified here as DCF.

30 other large investments

Investment Description of business	Business line Geography First invested in[1] 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
OneMed Group Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	30.5	89	93	91	46
Phibro Animal Health Corporation Animal healthcare	Private Equity US 2009 Earnings	29.9	90	89	54	41
Trescal Calibration services	Private Equity France 2010 Earnings	23.5	27	31	32	38
Lekolar AB Distributor of pedagogical products and educational materials	Private Equity Sweden 2007 Earnings	33.3	28	30	33	36
Palace Street I Debt Management (Credit Opportunities Fund)	Debt Management UK 2011 Broker quotes	n/a	n/a	36	n/a	35
Hyperion Insurance Group Limited Specialist insurance intermediary	Private Equity UK 2008 Industry metric	19.1	22	21	28	34
Everis Participaciones S.L. IT consulting business	Private Equity Spain 2007 Earnings	18.3	30	30	36	31
Krishnapatnam Port krishnapatnam.com India Port	Infrastructure India 2009 DCF	3.0	24	24	31	31
LHI Technology Private Limited Medical cable assemblies	Private Equity China 2008 Earnings	37.5	16	16	41	30
Lakeside Network Investments Electricity distribution	Infrastructure Finland 2012 DCF	5.7	n/a	28	n/a	29
Polyconcept Investments B.V. Supplier of promotional products	Private Equity Benelux 2005 Earnings	13.0	21	43	25	29
Adani Power Power generation	Infrastructure India 2007 Quoted	1.6	25	25	54	28
Otnortopco AS (Xellia/Alpharma) Developer and supplier of specialist active pharmaceutical ingredients	Private Equity Norway 2007 Earnings	30.4	77	86	60	27
BVG India Ltd Business services	Private Equity India 2011 Earnings	19.6	21	21	20	25
Labco SAS Diagnostic laboratories	Private Equity France 2008 Earnings	12.3	65	66	57	24
Soya Concept AS Fashion design company	Private Equity Denmark 2007 Earnings	45.0	13	13	27	23

30 other large investments continued

Investment Description of business	Business line Geography First invested in[1] 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
SLR Management Limited Specialist environmental consultancy	Private Equity UK 2008 Earnings	25.9	22	23	23	23
Loxam Holdings Professional equipment rental	Private Equity France 2011 Earnings	3.8	n/a	21	n/a	23
Touch Tunes Interactive Networks Out of home interactive media and entertainment network	Private Equity US 2011 Earnings	9.4	n/a	18	n/a	22
GVK Energy Power generation	Infrastructure India 2010 DCF	2.3	15	23	15	22
Environmental Scientifics Group Testing, inspection and compliance	Private Equity UK 2007 Earnings	38.0	27	32	41	21
MKM Building Supplies (Holdings) Limited Builders' merchant	Private Equity UK 1998 Earnings	30.3	14	15	23	21
Consultim Finance SAS Wholesaler of rental real estate	Private Equity France 2007 Earnings	20.0	12	24	24	20
Joyon Southside Real estate	Private Equity China 2007 DCF	49.9	15	8	25	20
Refresco Group B.V. Manufacturer of private label juices and soft drinks	Private Equity Benelux 2010 Earnings	10.7	46	46	47	17
KMC Roads Engineering, procurement and construction services	Infrastructure India 2011 DCF	6.7	15	15	15	16
UFO Moviez Provider of digital cinema services	Private Equity India 2007 Earnings	27.6	14	11	32	14
Gain Capital Retail online forex trading	Private Equity US 2008 Quoted	10.1	24	24	20	13
Franklin Offshore Holdings Pte Limited Manufacture, installation and maintenance of mooring and rigging equipment	Private Equity Singapore 2007 Other	30.9	12	12	29	13
Inspecta Supplier of testing, inspection and certification services	Private Equity Finland 2007 Earnings	39.2	51	51	23	13
87% of total portfolio value					**2,722**	**2,787**

1 "First invested in" is calendar year.

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.

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

Directors

The Directors of the Company and their functions are listed below:

Sir Adrian Montague, Chairman
Michael Queen, Chief Executive and executive Director
Julia Wilson, Group Finance Director and executive Director
Simon Borrows, Chief Investment Officer and executive Director
Jonathan Asquith, Non-executive Director
Alistair Cox, Non-executive Director
Richard Meddings, Non-executive Director and Senior Independent Director
Willem Mesdag, Non-executive Director
Martine Verluyten, Non-executive Director.

By order of the Board
K J Dunn
Company Secretary
16 May 2012
Registered Office: 16 Palace Street, London SW1E 5JD