16 May 2013

3i Group plc announces full year results to 31 March 2013

Preliminary results for the financial year to 31 March 2013 (FY2013)

Strategic and restructuring highlights

- Significantly outperformed cost savings target; achieved a £51 million run-rate operating cost reduction by 31 March 2013, 28% ahead of the original target of £40 million.
- Today we are announcing a material increase to the cumulative run-rate operating cost reduction target by 31 March 2014 of £45 million to £60 million. This cost savings target represents almost a third of the Group's opening run-rate cost base of £185 million at 31 March 2012.
- Substantial gross debt reduction with target achieved ahead of schedule. Gross debt of £1,081 million at 31 March 2013. Gross debt of £917 million at 30 April 2013, representing a 44% reduction from £1,623 million at 31 March 2012.
- Strong Private Equity realisations delivering realised profits over opening value of £190 million, a significant increase compared to £22 million in FY2012, and representing an uplift to opening value of 49% and a money multiple of 2.1x.
- Total AUM growth of 23% to £12.9 billion, including growth in third-party AUM of 45% to £9.2 billion. Largely driven by growth in Debt Management, including strategic acquisition of Fraser Sullivan in the US.
- Established framework arrangements, including fees and carry payable to 3i, with a number of leading investors to invest alongside 3i in mid-market European private equity buy-out opportunities. These innovative arrangements demonstrate confidence in 3i's investment capabilities and provide access to additional investment capital.

Financial highlights

- Total return of £373 million representing 14.2% on opening shareholders' funds, a significant improvement on the prior year loss of £(656) million and negative return of (19.5)%.
- Strong performance from Private Equity with gross portfolio return of £518 million or 19.7% on opening portfolio value compared to a loss of £(341) million and negative return of (9.7)% in the prior year.
- NAV per share of 311 pence, up 11.5% over the period, after taking into account implementation costs and dividends in the period of 5.8 pence and 8.1 pence per share respectively.
- Confirming proposed final dividend of 5.4 pence per share, bringing the total dividend for FY2013 to 8.1 pence per share, subject to shareholder approval.
- Expect to initiate additional shareholder distributions above the annual base dividend in respect of FY2014.

Simon Borrows, 3i's Chief Executive, commented:

"We have made significant and rapid progress in the turnaround of 3i and we have delivered against all of the immediate priorities and targets for financial year 2013 that we set out in our strategic plan in June last year. The substantial progress that we have made is underlined by our strong set of results for financial year 2013.

"We have significantly outperformed our cost reduction target, achieving £51 million of cost savings by 31 March 2013, 28% ahead of our original £40 million target. We are today announcing a new and more ambitious target of £60 million of cumulative cost savings by 31 March 2014, representing a total reduction of almost a third of our total cost base of £185 million at 31 March 2012. This represents a major step towards our objective of aligning 3i's cost base with its annual cash income. However, it is not just about cost cutting, it also about growth in cash income, both from third-party funds under management and our investment portfolio. As such, we now expect that Group cash income will cover operating costs by 31 March 2014 on a run-rate basis.

"Within Private Equity, we are seeing the benefits coming through from the asset management improvement initiatives that we set in train last year. This is demonstrated by the material improvement in the performance of the portfolio and by recent realisations, including those announced since the year-end, where we have achieved, in aggregate, a good uplift to book value and a strong cash-on-cash multiple. Examples of recent realisations include Civica, EUSA Pharma, Giraffe, HILITE, Hyperion, Mold-Masters, NORMA and Quintiles.

"Our Debt Management and Infrastructure businesses continue to perform well and make a strong contribution to the Group in terms of third-party fees and portfolio income. In the last year, we have almost doubled the third-party AUM of Debt Management from £3.3 billion to £6.4 billion, and we see further opportunities to grow third-party AUM and fee income across our businesses.

"We have a clear vision for 3i and our focus is relentless on executing our strategic plan to deliver this. We are only one year into our three year strategic plan and there is plenty more that we are doing to drive performance and generate further shareholder value. We look to the future with confidence as we execute the next phase of our plan."

3i's strategic goal and the Value Build

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

- Focused mid-market Private Equity;
- Class-leading Infrastructure; and
- Growing Debt Management.

A document which summarises the key phases of our strategic plan to deliver our strategic goal is available on 3i's web-site: http://3i.com/investor-relations/results-reports/results-presentations

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

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

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

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

ENDS

For further information, please contact:

Silvia Santoro Investor Relations Director	Tel 020 7975 3258
Kathryn van der Kroft PR Director	Tel: 020 7975 3021

For further information regarding the announcement of 3i's annual results to 31 March 2013, including a live videocast of the results presentation from 09.00, please go to www.3i.com.

Notes to editors

3i is a leading international investor focused on mid-market private equity, infrastructure and debt management across Europe, Asia and the Americas. For further information, please visit: www.3i.com.

Notes to the announcement of the results

Note 1

The statutory accounts for the year to 31 March 2013 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2012 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 2013 will be distributed to shareholders on or soon after 6 June 2013.

Note 3

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

Note4

Subject to shareholder approval, the proposed final dividend is expected to be paid on 26 July 2013 to holders of ordinary shares on the register on 21 June 2013.

Total return year to 31 March

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

Chairman’s statement

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

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

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

Restructuring and strategic progress

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

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

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

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

Infrastructure continued to generate strong portfolio income and deliver steady underlying asset performance in its core European market. The value of the Group’s 34% shareholding in 3i Infrastructure plc (“3iN”), increased by 7.1% in the year. In addition, 3iN recently announced that following its strategic review and rebalancing of risk and reward, it will increase its annual distribution yield objective from 5.0% to 5.5% of opening NAV.

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

Performance and results

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

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

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

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

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

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

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

Summary and outlook

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

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

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

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

Sir Adrian Montague
Chairman

Chief Executive's review

Our strategic priorities

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

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

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

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

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

Strategic goal and the 3i Value Build

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

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

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

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

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

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

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

Strategic priorities and progress in FY2013

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

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

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

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

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

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

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

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

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

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

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

In June last year, I announced six asset management improvement initiatives, covering all aspects of 3i's investment and asset management processes within Private Equity. In particular, these

initiatives were designed to ensure a highly selective and consistent approach to new investment, earlier identification of potential issues with existing portfolio companies, and well constructed exit strategies that maximise value in realisation processes. This programme of initiatives has been substantially implemented and is already making a real difference. I believe that further benefits will be seen in the performance of our Private Equity portfolio over time. Examples of these initiatives include:

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

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

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

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

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

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

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

During financial year 2013, we have made a number of important realisations with aggregate proceeds to 3i of £575 million. These include EUSA Pharma, Giraffe, HILITE, Mold-Masters and NORMA. In aggregate, Private Equity realisations in financial year 2013 have generated an uplift of 49% over opening book value and a money multiple of 2.1x. Many of these realisations were

based on the detailed exit plans that we put in place a year ago in order to optimise the value of those investments, and we will continue to execute our realisation plans in this way.

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

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

4. Grow third-party AUM and income

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

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

- In March 2013, 3i announced it had completed its second Brazilian investment with the acquisition of leading Brazilian eyewear retailer, Óticas Carol. The 3i led consortium included institutional investors Neuberger Berman and Siguler Guff.

- 3i has established framework arrangements with a number of leading investors to invest alongside 3i in mid-market European private equity buy-out opportunities. These arrangements include fees and carry payable to 3i. We believe that these innovative arrangements with market-leading institutions demonstrate confidence in 3i's investment capabilities as well as providing access to additional investment capital.

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

- Infrastructure is a key contributor to the Group's annual cash income through both third-party fees and portfolio income. In addition, the value of the Group's 34% shareholding in 3i Infrastructure plc increased by 7.1% during financial year 2013.

- There is strong demand for infrastructure assets as investors seek yield, and we are seeing a number of interesting investment opportunities in our core markets. In addition, we are continuing to explore opportunities to grow our existing infrastructure platform and product offering.

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

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

- We continue to see a number of attractive opportunities for further growth and development of our Debt Management business through fund launches and bolt-on acquisitions.

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

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

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

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

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

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

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

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

Performance and results

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

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

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

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

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

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

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

Strategic objectives and priorities for FY2014-15

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

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

To achieve these key objectives, our priorities and targets for financial years 2014 and 2015 are set out in the Overview of strategy and business model, which can be found on our website at http://3i.com/investor-relations/results-reports/results-presentations

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

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

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

Outlook

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

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

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

Simon Borrrows
Chief Executive

Business review

Group overview

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

The Group's performance for the period resulted in a total return of £373 million, or a profit on opening shareholders' funds of 14.2%, a significant improvement on the prior year (2012: £(656) million, (19.5)%). Portfolio performance was good in the year, with improved earnings growth and strong realisations above March 2012 valuations, generating a gross portfolio return of £546 million or 17.0% of opening portfolio value (2012: £(329) million, (8.2)%). Operating expenses and net interest costs were at similar levels to the prior year but include £55 million of charges and items (£30 million re-organisation implementation and £25 million of accelerated interest) linked to the implementation of the strategic priorities announced in June 2012.

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

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

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

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

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

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

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

Financial data and key performance indicators

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

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

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

Market environment

Macroeconomic conditions

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

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

Investment and fundraising conditions

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

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

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

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

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

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

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

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

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

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

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

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

Assets under management

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

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

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

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

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

Investments and realisations

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

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

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

Investment

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

Table 3: **New investment** in the year to 31 March 2013

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

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

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

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

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

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

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

1 Includes net investment in Palace Street I.

Table 5**: Investment type** for the year to 31 March

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

1 Includes net investment in Palace Street I and syndicated investments in Private Equity.
2 Includes capitalised interest and unsettled trades in Palace Street I.

Realisations

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

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

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

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

The **Debt Management** business is focused on creating value through earning fees from the provision of fund management services, so its performance is not driven by the realisation of the Group’s portfolio investments in the business line. However, realised profits of £5 million from

trading activities within Palace Street I, the European Credit Opportunities Fund, were achieved in the year. Further details of the realisations in the year are included in Table 7.

Table 6: **Realisations by type** for the year to 31 March

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

Table 7: **Realisations** in the year to 31 March 2013

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

1 Profit/(loss) for the year includes the impact of foreign exchange movements from 31 March 2012 to the date of the sale.
2 Cash proceeds in the period over opening value.
3 Cash proceeds (including income) over cash invested.
4 For partial divestments and recapitalisations, valuations of any remaining investment are included in the money multiple over cost calculation.
5 Deferred consideration.
6 Other investments in Private Equity include the realisation of investments with a cost of £186 million.

Business lines – Private Equity

Introduction

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

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

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

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

Business model

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

The strategy is built around the following components:

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

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

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

Mold-Masters case study

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

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

Significant value creation
3i supported the company in substantially growing market share and turnover between 2009 and 2012. Turnover grew from CAD$168 million to CAD$271 million, representing a CAGR of 17%, reinforcing the company's position as a global leader in its sector. Leveraging 3i's extensive active partnership approach enabled the company to accelerate its organic growth in Asia, Europe and South America. The company made a number of add-on acquisitions to expand its geographical reach and product offering and 3i supported it through a range of performance enhancements including: improving its sales force effectiveness; optimising its global manufacturing footprint; new product introductions; upgrading financial management and controls; and de-leveraging in 2009, leading to significant value creation during the period of 3i's investment.

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

Performance for the year

Table 8: **Returns from Private Equity**

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

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

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

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

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

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

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

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

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

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

Table 9: **Portfolio earnings growth**[1]

	3i carrying value at 31 March 2013 (£m)	Number of companies
<(20)%	**187**	**9**
(20)-(11)%	**147**	**5**
(10)-(1)%	**202**	**8**
0-9%	**782**	**13**
10-20%	**811**	**12**
>20%	**235**	**13**

1 This represents 87% of the Private Equity portfolio, being those companies valued on an earnings basis.

Although performance overall was good, there were a small number of investments, particularly in Asia and France, where earnings growth was disappointing against worsening economic conditions in these regions and values reduced. Forecast earnings, used when the forecast EBITDA outlook is lower than the last 12 months' data, were used in 11 investments, 22% of the portfolio by number (2012: 5, 8%) and 11% by value (2012: 2%).

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

The net debt position of the portfolio further improved in the period, with the average ratio of net debt to EBITDA, for those assets valued on an earnings basis, reducing to 3.2x at 31 March 2013 (2012: 3.4x). Refinancings within the portfolio during the year also extended the maturity of portfolio debt, with 78% of the debt repayable in 2015 or later (2012: 68%). Table 10 shows the ratio of net debt to EBITDA weighted by portfolio value.

Table 10: **Ratio of net debt to EBITDA – Private Equity portfolio weighted by March 2013 carrying values**[1]
as at 31 March 2013

	£m
<1x	**590**
1-2x	**434**
2-3x	**586**
3-4x	**297**
4-5x	**536**
5-6x	**0**
>6x	**151**

1 This represents 96% of the Private Equity portfolio, being those investments where net debt is relevant.

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

These multiples remain below those seen in relevant sector and geographic public markets. Table 11 details the EBITDA multiples used to value the portfolio and the FTSE 250 index.

Table 11: **EBITDA multiples** for the year to 31 March

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

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

Assets under management

As all the funds in Table 12 are now past the investment period, AUM is calculated using the remaining cost of the underlying investments.

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

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

Table 12: **Assets under management**

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

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

Priorities for the year ahead

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

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

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

Óticas Carol

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

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

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

The strength of this model has resulted in the company operating 490 stores across 19 of the 26 states in Brazil, including Rio de Janeiro and São Paulo. The investment will support the company management team's plan to extend its store network throughout Brazil, with 3i working closely with management as an active partner, providing retail sector expertise and international best practice in strategy, operations and governance.

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

Portfolio

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

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

Business lines – Infrastructure

Introduction

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

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

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

Business model

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

The strategy is built around the following components:

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

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

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

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

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

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

Performance for the year

Table 13: **Returns from Infrastructure**

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

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

The value of the Group’s 34% holding in 3iN increased by 7.1% in the year to 31 March 2013, generating an unrealised value gain for the Group of £24 million for the year. This increase was underpinned by the strong performance of 3iN’s European portfolio, which also continued to generate good levels of income. In particular, 3iN’s holdings in AWG and Oystercatcher saw good value increases. These were supported, in the case of AWG, by the business’ continued good operational performance and by favourable market and transaction multiples in the UK water sector and, in the case of Oystercatcher, by resilient operational performance and the refinancing of the acquisition debt facility.

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

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

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

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

Assets under management

The Infrastructure business line had assets under management of £1.6 billion at 31 March 2013 (2012: £1.7 billion). The India Fund reached the end of its investment period in November 2012 and consequently its contribution to total AUM is now based on the remaining cost of its investments, rather than on committed capital. This change in methodology accounts for the year-on-year decline in AUM. 3iN is a permanent capital vehicle and its contribution to AUM is calculated on the basis of its net asset value, which increased by 3% in the year, net of dividend receipts.

Table 14: **Assets under management**

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

1 Gross money multiple is the cash returned to the Fund plus value as at 31 March 2013, as a multiple of cash invested.
2 Adjusted to reflect 3i Infrastructure plc's US$250 million share of the Fund.
3 Based on latest published NAV (ex-dividend).
4 3i Group's proportion of latest published NAV.

Elenia case study

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

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

A strong business with clear infrastructure characteristics

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

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

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

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

An efficient use of our balance sheet
Elenia was acquired from Vattenfall AB in January 2012 by a consortium comprising:

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

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

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

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

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

Priorities for the year ahead

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

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

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

Portfolio

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

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

Business lines – Debt Management

Introduction

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

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

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

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

3i intends to increase its investment in Debt Management funds to c.10% of the assets under management in this business line over time, from the 1.1% at 31 March 2013.

Business model

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

The strategy is built around the following components:

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

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

Performance for the year

Table 15: **Returns from Debt Management**

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

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

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

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

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

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

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

Debt Management case study – 3i's US business

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

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

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

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

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

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

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

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

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

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

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

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

Table 16: **Assets under management**

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

US CLO funds	Closing date	Reinvestment period end	Maturity date	Par value of fund at launch	Realised equity money multiple	AUM	Annualised equity cash yield
Fraser Sullivan CLO I	Mar-06	Mar-12	Mar-20	US$400m	1.3x	US$364m	19.9%
Fraser Sullivan CLO II	Dec-06	Dec-12	Dec-20	US$485m	1.2x	US$483m	22.7%
COA Caerus CLO	Dec-07	n/a	Dec-19	US$242m	1.1x	US$244m	23.1%
Fraser Sullivan CLO VI	Nov-11	Nov-14	Nov-22	US$409m	0.2x	US$402m	16.4%
Fraser Sullivan CLO VII	Apr-12	Apr-15	Feb-21	US$450m	0.1x	US$452m	18.0%
Jamestown CLO I	Nov-12	Nov-16	Nov-24	US$450m	n/a	US$450m	n/a
Jamestown CLO II	Feb-13	Jan-17	Jan-25	US$500m	n/a	US$500m	n/a
						£1,907m	**Average: 20.0%**

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

1 Includes par value of assets and principal cash amount.
2 Multiple of total equity distributions over par value of equity at launch.
3 Average annualised returns since inception of CLOs calculated as annualised cash distributions over par value of equity. Excludes unrealised equity remaining in CLO.
4 Vintage I & II returns is shown as gross money multiple which is cash returned to the Fund plus value as at 31 March 2013, as a multiple of cash invested.
5 The annualised returns for the COA fund and Senior Loan Fund are the annualised net returns of the Funds since inception.
6 The COA Fund AUM excludes the market value of investments the fund has made in 3i US Debt Management CLO funds (US$131 million as at 31 March 2013).

Priorities for the year ahead

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

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

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

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

Portfolio

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

Financial review

Returns

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

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

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

Table 17: **Total return year to 31 March**

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

Gross portfolio return

Realised profits

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

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

Unrealised value movements

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

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

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

Performance

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

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

1 Net debt to EBITDA used to value portfolio companies.

Multiple movements

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

Provisions

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

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

Discounted Cash Flow
The Discounted Cash Flow (DCF) valuation basis is used to value portfolio companies with predictable and stable cash flows, typically infrastructure investments. As at 31 March 2013, there were 11 portfolio companies valued using the DCF valuations basis, the majority of which relate to the Group's Indian portfolio. The continued challenging environment in India has contributed to an unrealised loss for cases valued using DCF models of £41 million in the year (2012: £(1) 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 total "other" increase in value was £73 million in the year to 31 March 2013 (2012: £(51) million), predominantly driven by a value increase in one company, which was supported by a market valuation metric.

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

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

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

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

Portfolio income

Table 20: **Portfolio income** year to 31 March

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

Income from the portfolio was £101 million in the year to 31 March 2013 (2012: £146 million). Dividends of £43 million were received (2012: £47 million), including £18 million from 3i Infrastructure plc, £10 million from Quintiles, a US Private Equity healthcare investment, and £4 million from Debt Management

investments. Interest income was materially lower in the period at £54 million (2012: £95 million) due to the net divestment position for Private Equity, the effect of restructurings and a small number of investments, particularly in Spain, where the interest accruing was provided for as the fair value of the investment was judged to be below that of the principal loan value.

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

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

Net portfolio return

Table 21: **Net portfolio return** year to 31 March

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

Fees receivable from external funds

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

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

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

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

Net carried interest and performance fees payable

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

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

Operating expenses

Table 22: **Operating expenses** year to 31 March

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

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

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

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

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

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

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

Annual operating cash profit

Table 23: **Annual operating cash profit** year to 31 March

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

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

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

The full benefits of the cost reduction programme will be seen in the next financial year, with the implementation costs and timing effects largely negating the immediate savings in the year to 31 March 2013. The annualised run-rate operating expenses of the business at

31 March 2013 are £140 million, or 1.1% of closing AUM. This includes the annual costs relating to corporate transactions completed in the period which are expected to be more than offset by the corresponding fee income.

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

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

Total return

Net interest payable

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

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

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

Derivative movements

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

Net foreign exchange movements

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

Pensions

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

Balance sheet

Portfolio value

Table 24: **Portfolio value movement by business line**

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

1 Other relates to foreign exchange and the provisioning of capitalised interest.
2 Non-core has been combined with Private Equity.
3 The Palace Street 1 Fund presents investment net of realisations.

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

Table 25: **Gearing and borrowings** as at 31 March

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

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

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

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

Foreign exchange hedging

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

Liquidity

Liquidity reduced in the year to £1,082 million (2012: £1,653 million). This comprised cash and deposits of £746 million (2012: £1,159 million) and undrawn facilities of £336 million (2012: £494 million). The cash balance reduced primarily as a result of the repayment of debt in the year, with cash inflows from divestment activity being offset by investment and other operating cash

flows. The repayment of £164 million of gross debt after the period end had no impact on liquidity as it was the repayment of drawings under one of the committed facilities, providing a currency hedge. Cash reduced by £164 million and undrawn facilities increased by a corresponding amount.

Diluted NAV

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

Risk

Principal risks and risk management

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

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

Approach to risk management

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

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

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

Risk management process and governance structure

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

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

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

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

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

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

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

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

Changes and improvements

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

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

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

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

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

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

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

Review of principal risks

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

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

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

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

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

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

Strategic

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

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

Investment

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

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

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

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

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

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

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

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

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

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

List of Directors and their functions

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

Sir Adrian Montague, Chairman
Simon Borrows, Chief Executive and executive Director
Julia Wilson, Group Finance Director 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
15 May 2013
Registered Office: 16 Palace Street, London SW1E 5JD

Statement of comprehensive income
for the year to 31 March

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

Earnings per share			
Basic (pence)	9	**19.5**	(82.8)
Diluted (pence)	9	**19.4**	(82.8)

Consolidated statement of changes in equity

for the year to 31 March

2013 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**	**780**	**43**	**11**	**457**	**233**	**491**	**-**	**(105)**	**2,627**
Income/(loss) for the year						**107**	**76**			**183**
Exchange differences on translation of foreign operations					**173**					**173**
Actuarial gain						**17**				**17**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**173**	**124**	**76**	**–**	**–**	**373**
Share-based payments				**9**						**9**
Release on forfeiture of share options				**(3)**			**3**			**-**
Loss on sale of own shares						**(1)**			**1**	**-**
Ordinary dividends							**(76)**			**(76)**
Issue of ordinary shares	**1**									**1**
Total equity at the end of the year	**718**	**780**	**43**	**17**	**630**	**356**	**494**	**–**	**(104)**	**2,934**

Consolidated statement of changes in equity (cont'd)

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 income/(loss) for the year	–	–	–	–	194	(853)	3	–	–	(656)
Release on lapse of equity settled call options						5		(5)		–
Share-based payments				5						5
Release on forfeiture of share options				(11)			11			–
Purchase of own shares									(31)	(31)
Loss on sale of own shares						(12)			12	–
Ordinary dividends							(49)			(49)
Issue of ordinary shares		1								1
Total equity at the end of the year	717	780	43	11	457	233	491	–	(105)	2,627

Company statement of changes in equity
for the year to 31 March

2013 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**	**780**	**43**	**11**	**936**	**232**	**–**	**2,719**
Profit for the year					**400**	**(15)**		**385**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**400**	**(15)**	**–**	**385**
Share-based payments				**9**				**9**
Release on forfeiture of share options				**(3)**		**3**		**-**
Ordinary dividends						**(76)**		**(76)**
Issue of ordinary shares	**1**							**1**
Total equity at the end of the year	**718**	**780**	**43**	**17**	**1,336**	**144**	**–**	**3,038**

2012 Company	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

Statement of financial position
as at 31 March

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

Sir Adrian Montague
Chairman 15 May 2013

Cash flow statement
for the year to 31 March

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

Notes to the financial statements

1 Segmental analysis

Operating segments are components of the entity whose results are regularly reviewed by the entity's chief operating decision-maker to make decisions about resources to be allocated to the segment and to assess its performance. The chief operating decision-maker for the Group is considered to be the Chief Executive Officer. The Group's operating segments have been defined as the Group's business lines, namely Private Equity, Infrastructure and Debt Management. The business lines are determined with reference to market focus, geographic focus, and investment funding model.

The performance of operating segments is assessed based on the net portfolio return, principally comprising gains and losses on investments and investment income, fees received from management of external funds and the associated costs of the business line. Segmental assets are represented by the investment portfolio value for each business line.

Year to 31 March 2013	Private Equity[1] £m	Infrastructure £m	Debt Management £m	Total £m
Gross portfolio return				
Realised profits over value on the disposal of investments	**190**	**-**	**5**	**195**
Unrealised profits/(losses) on the revaluation of investments	**250**	**(2)**	**2**	**250**
Portfolio income				
Dividends	**22**	**18**	**3**	**43**
Income from loans and receivables	**52**	**-**	**2**	**54**
Fees receivable/(payable)	**4**	**-**	**-**	**4**
	518	**16**	**12**	**546**
Net portfolio return				
Fees receivable from external funds	**19**	**21**	**31**	**71**
Carried interest receivable from external funds	**4**	**1**	**(1)**	**4**
Carried interest and performance fees payable	**(11)**	**(2)**	**(6)**	**(19)**
Operating expenses	**(114)**	**(24)**	**(32)**	**(170)**
	416	**12**	**4**	**432**
Net divestment/(investment)				
Realisations	**575**	**31**	**-**	**606**
Cash Investment	**(121)**	**(5)**	**(46)**	**(172)**
	454	**26**	**(46)**	**434**
Balance sheet				
Value of investment portfolio at the end of the year	**2,707**	**507**	**81**	**3,295**

1 The Private Equity business line now includes Non-core investments which were previously disclosed separately.

1 Segmental analysis (cont'd)

Year to 31 March 2012	Private Equity[1] £m	Infrastructure £m	Debt Management £m	Total £m
Gross portfolio return				
Realised profits over value on the disposal of investments	22	–	1	23
Unrealised losses on the revaluation of investments	(488)	(7)	(3)	(498)
Portfolio income				
Dividends	27	18	2	47
Income from loans and receivables	94	–	1	95
Fees receivable/(payable)	4	–	–	4
	(341)	11	1	(329)
Net portfolio return				
Fees receivable from external funds	32	25	32	89
Carried interest receivable from external funds	(13)	(14)	12	(15)
Carried interest and performance fees payable	13	8	(11)	10
Operating expenses	(132)	(17)	(31)	(180)
	(441)	13	3	(425)
Net divestment/(investment)				
Realisations	770	1	–	771
Cash Investment	(377)	(70)	(17)	(464)
	393	(69)	(17)	307
Balance sheet				
Value of investment portfolio at the end of the year	2,634	528	42	3,204

1 The Private Equity business line now includes Non-core investments which were previously disclosed separately.

1 Segmental analysis (cont'd)

Year to 31 March 2013	**UK £m**	**Continental Europe £m**	**The Americas £m**	**Asia £m**	**Rest of World £m**	**Total £m**
Gross portfolio return						
Realised profits over value on the disposal of investments	**56**	**30**	**107**	**3**	**(1)**	**195**
Unrealised profits/(losses) on the revaluation of investments	**86**	**197**	**27**	**(61)**	**1**	**250**
Portfolio income	**44**	**40**	**14**	**2**	**1**	**101**
	186	**267**	**148**	**(56)**	**1**	**546**
Net divestment/(investment)						
Realisations	**150**	**231**	**222**	**3**	**-**	**606**
Cash Investment	**(4)**	**(102)**	**(61)**	**(5)**	**-**	**(172)**
	146	**129**	**161**	**(2)**	**-**	**434**
Balance sheet						
Value of investment portfolio at the end of the year	**1,048**	**1,542**	**262**	**437**	**6**	**3,295**

Year to 31 March 2012	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
Gross portfolio return						
Realised (losses)/profits over value on the disposal of investments	(19)	40	1	1	–	23
Unrealised losses on the revaluation of investments	(36)	(351)	(4)	(107)	–	(498)
Portfolio income	66	59	21	–	–	146
	11	(252)	18	(106)	–	(329)
Net divestment/(investment)						
Realisations	76	670	9	16	–	771
Cash Investment	(55)	(373)	(18)	(18)	–	(464)
	21	297	(9)	(2)	–	307
Balance sheet						
Value of investment portfolio at the end of the year	1,029	1,421	278	470	6	3,204

2 Realised profits over value on the disposal of investments

	2013 Unquoted equity £m	**2013 Quoted equity £m**	**2013 Loans and receivables £m**	**2013 Traded portfolio £m**	**2013 Total £m**
Realisations	**351**	**120**	**135**	**-**	**606**
Valuation of disposed investments	**(166)**	**(113)**	**(133)**	**5**	**(407)**
Investments written off	**(4)**	**-**	**-**	**-**	**(4)**
	181	**7**	**2**	**5**	**195**

	2012 Unquoted equity £m	2012 Quoted equity £m	2012 Loans and receivables £m	2012 Traded portfolio £m	2012 Total £m
Realisations	557	1	213	–	771
Valuation of disposed investments	(517)	(2)	(197)	1	(715)
Investments written off	–	–	(33)	–	(33)
	40	(1)	(17)	1	23

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

	2013 Unquoted equity £m	**2013 Quoted equity £m**	**2013 Loans and receivables £m**	**2013 Traded portfolio £m**	**2013 Total £m**
Movement in the fair value of equity and traded loans	**215**	**11**	**-**	**(1)**	**225**
Provisions recovered, loan impairments and other movements	**-**	**-**	**25**	**-**	**25**
	215	**11**	**25**	**(1)**	**250**

	2012 Unquoted equity £m	2012 Quoted equity £m	2012 Loans and receivables £m	2012 Traded portfolio £m	2012 Total £m
Movement in the fair value of equity and traded loans	(160)	(20)	–	(1)	(181)
Provisions, loan impairments and other movements	(64)	–	(253)	–	(317)
	(224)	(20)	(253)	(1)	(498)

Provisions have been recognised only on investments where it is considered there is a greater than 50% risk of the Group's investment failing. All other equity value movements are included within the movement in the fair value of equity.

4 Net interest payable

	2013 £m	2012 £m
Interest receivable		
Interest on bank deposits	**6**	12
	6	12
Interest payable		
Interest on loans and borrowings	**(103)**	(109)
Interest on convertible bonds	**–**	(1)
Amortisation of convertible bonds	**–**	(1)
Net finance (expense)/income on pension plan	**6**	8
	(97)	(103)
Net interest payable	**(91)**	(91)

5 Movement in the fair value of derivatives

	2013 £m	2012 £m
Interest-rate swaps	**(8)**	(19)
Call options	**–**	(1)
Forward foreign exchange contracts	**2**	1
	(6)	(19)

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the statement of comprehensive income. During the year, an £11 million loss (2012: £16 million gain) was recognised in exchange movements in relation to forward foreign exchange contracts.

6 Income taxes

	2013 £m	2012 £m
Current taxes		
Current year	**(9)**	(8)
Deferred taxes		
Deferred income taxes	**3**	2
Total income taxes in the statement of comprehensive income	**(6)**	(6)

Reconciliation of income taxes in the statement of comprehensive income
The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 24% (2012: 26%), and the differences are explained below:

	2013 £m	2012 £m
Profit before tax	**189**	(777)
Profit before tax multiplied by rate of corporation tax in the UK of 24% (2012: 26%)	**(45)**	202
Effects of:		
Permanent differences	**(9)**	12
Short term timing differences	-	(12)
Non-taxable dividend income	**10**	2
Foreign tax	**(4)**	(4)
Capital losses/profits	**67**	(206)
Excess tax losses arising in the period	**(25)**	-
Total income taxes in the statement of comprehensive income	**(6)**	(6)

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non-taxable.

6 Income taxes (cont'd)

Deferred income taxes

	2013 £m	2012 £m
Opening deferred income tax liability		
Tax losses	**10**	25
Income in accounts taxable in the future	**(12)**	(26)
Deferred tax recognised on acquisition	**(4)**	(5)
Other	**2**	-
	(4)	(6)
Recognised through statement of comprehensive income		
Tax losses utilised	**-**	(15)
Income in accounts taxable in the future	**-**	14
Amortisation of intangible asset	**1**	1
Other	**2**	2
	3	2
Closing deferred income tax liability		
Tax losses	**10**	10
Income in accounts taxable in the future	**(12)**	(12)
Deferred tax recognised on acquisition	**(3)**	(4)
Other	**4**	2
	(1)	(4)

At 31 March 2013 the Company had tax losses carried forward of £1,084 million (2012: £977 million). It is unlikely that the Group will generate sufficient taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 23% (2012: 24%).

7 Business combination

On the 28 September 2012 3i Debt Management US LLC, a newly formed entity ("3i DM US"), entered into a strategic transaction with WCAS Fraser Sullivan Investment Management ("FSIM") to set up a US debt management platform. At the time of the transaction FSIM, a specialist US debt management company, was managing US$2.5 billion of AUM, comprising six CLO funds, one credit opportunity fund and one senior loan fund.

Following completion of the transaction, the fund management of the Senior Loan Fund and the Credit Opportunities Fund transferred across to 3iDM US. The senior loan fund was renamed 3i US Senior Loan Fund. FSIM continued to manage the existing CLO funds until investor approval was granted to change the fund manager to 3i DM US in March 2013. As part of the strategic transaction the FSIM team were initially employed by both FSIM and by 3i DM US, following the transfer of all FSIM funds to 3i DM US all employees are now employed solely by 3i DM US.

3iDM US has acquired certain of the assets and liabilities of FSIM. 3iDM US entered into a services agreement with FSIM which was classified as an intangible asset. Following the transfer of existing CLO fund management to 3iDM US in March 2013 this agreement has been replaced and 3iDM US will now directly manage the CLO funds.

This strategic transaction is judged to have key features of a business combination and accordingly has been classified as a business combination under IFRS3: Business Combinations. The Group subscribed for 80% of the equity of 3iDM US for cash consideration of £8 million. The management team of FSIM subscribed for the remaining 20% of the equity of 3iDM US. The Group has entered into agreements to purchase this remaining 20% from the management team by March 2016, with the price subject to the performance of 3iDM US.

The purchase of the management team's equity holding or "earn-out" is made up of two parts:

- £2 million deferred consideration, for the transfer of the remaining 20% of the shares held by FSIM management by March 2016. This has been recognised on acquisition and will be carried as a liability on the Group balance sheet.
- The remaining amount is contingent on the management team remaining in employment with 3iDM US and raising new funds. The amount will be determined by the performance of 3iDM US during the three year period and will be recognised in the statement of comprehensive income as carried interest and performance fees payable.

The fair value of the identifiable assets and liabilities of FSIM as at the date of entering into the strategic transaction and the consideration paid were:

	Fair value recognised £m
Fair value of assets received	
Intangible assets (fund management contracts and service agreement)	2
Total fair value of assets received	2
Fair value of liabilities assumed	
Creditors	(1)
Total fair value of liabilities assumed	(1)
Total identifiable net assets at fair value	1
Consideration	
Cash	8
Deferred consideration	2
Total consideration	10
Goodwill	9
Net cash outflow arising on acquisition	
Cash consideration paid	(8)
Cash and cash equivalents acquired	-
Net cash flow on acquisition	(8)

From the date of acquisition to 31 March 2013, 3i DM US contributed £3 million to management fees, and incurred operating expenses and amortisation of the fund management contracts of £2 million, which resulted in an overall profit of £1 million to the net profit before tax of the Group.

8 Loans and borrowings

	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Loans and borrowings are repayable as follows:				
Within one year[1]	**164**	231	**–**	231
In the second year	–	250	–	250
In the third year	–	50	–	–
In the fourth year	**280**	–	**280**	–
In the fifth year	–	448	–	292
After five years	**575**	610	**575**	610
	1,019	1,589	**855**	1,383

Principal borrowings include:

	Rate	Maturity	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2023	**200**	200	**200**	200
£400 million notes (public issue)	5.750%	2032	**375**	375	**375**	375
€350 million notes (public issue)	5.625%	2017	**280**	292	**280**	292
Other			–	35	–	35
Variable rate						
€500 million notes (public issue)	EURIBOR+0.200%	2012	–	231	–	231
Other			–	250	–	250
			855	1,383	**855**	1,383
Committed multi-currency facilities						
£200 million	LIBOR+3.75%	2014	–	50	–	–
£50 million	LIBOR+1.50%	2016	–	–	–	–
£450 million [1]	LIBOR+1.00%	2016	**164**	156	–	–
			164	206	–	–
Total loans and borrowings			**1,019**	1,589	**855**	1,383

1 Repaid on 18 April 2013

The £200 million multi-currency facility was cancelled in March 2013.

The Group is subject to a financial covenant on its committed multi-currency facilities, the Asset Cover Ratio, defined as total assets (including cash) divided by loans and borrowings plus derivative financial liabilities. The Asset Cover Ratio limit is 1.45 at 31 March 2013 (2012: 1.45), the Asset Cover Ratio at 31 March 2013 is 4.00 (2012: 2.82).

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loans and borrowings is £1,087 million (2012: £1,581 million), determined where applicable with reference to their published market price.

9 Per share information

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

As at 31 March	**2013**	2012
Earnings per share (pence)		
Basic	**19.5**	(82.8)
Diluted	**19.4**	(82.8)
Earnings (£m)		
Profit/(loss) for the year attributable to equity holders of the Company	**183**	(783)

As at 31 March	**2013**	2012
Weighted average number of shares in issue		
Ordinary shares	**971,257,376**	970,832,567
Own shares	**(31,582,481)**	(25,156,748)
	939,674,895	945,675,819
Effect of dilutive potential ordinary shares		
Share options and awards	**3,253,409**	2,245,376
Diluted shares	**942,928,304**	947,921,195

As at 31 March	**2013**	2012
Net assets per share (£)		
Basic	**3.12**	2.80
Diluted	**3.11**	2.79
Net assets (£m)		
Net assets attributable to equity holders of the Company	**2,934**	2,627

As at 31 March	**2013**	2012
Number of shares in issue		
Ordinary shares	**971,405,127**	971,069,281
Own shares	**(31,395,645)**	(32,968,465)
	940,009,482	938,100,816
Effect of dilutive potential ordinary shares		
Share options and awards	**3,613,318**	2,827,365
Diluted shares	**943,622,800**	940,928,181

10 Dividends

	2013 pence per share	2013 £m	2012 pence per share	2012 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	**5.4**	**51**	2.4	23
Interim dividend	**2.7**	**25**	2.7	26
	8.1	**76**	5.1	49
Proposed final dividend	**5.4**	**51**	5.4	51

11 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 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Carried interest receivable	**6**	(24)	**4**	(24)
Fees receivable from external funds	**25**	41	**-**	–

Statement of financial position	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Carried interest receivable	**10**	27	**9**	27

Investments

The Group makes minority investments in the equity of unquoted and quoted investments. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

Statement of comprehensive income	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Realised profit/(loss) over value on the disposal of investments	**118**	(4)	**42**	15
Unrealised profits /(losses) on the revaluation of investments	**299**	(370)	**134**	(57)
Portfolio income	**82**	122	**44**	37

Statement of financial position	Group 2013 £m	Group 2012 £m	Company 2013 £m	Company 2012 £m
Quoted equity investments	**398**	480	**239**	377
Unquoted equity investments	**1,087**	853	**584**	169
Loans and receivables	**1,159**	1,141	**591**	121

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. These transactions are made on an arm's length basis.

Advisory arrangements

The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange. The following amounts have been included in respect of this advisory relationship:

Statement of comprehensive income	**Group 2013 £m**	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Unrealised profits on the revaluation of investments	**24**	22	**15**	22
Fees receivable from external funds	**15**	17	**-**	-
Carry receivable from external funds	**1**	-	**1**	-
Dividends	**18**	18	**18**	18

Statement of financial position	**Group 2013 £m**	Group 2012 £m	**Company 2013 £m**	Company 2012 £m
Quoted equity investments	**398**	375	**239**	375

Key management personnel

The Group's key management personnel comprise the members of the Executive Committee, which replaced the Leadership Team in July 2012, and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

Statement of comprehensive income	**Group 2013 £m**	Group 2012 £m
Salaries, fees, supplements and benefits in kind	**6**	7
Bonuses and deferred share bonuses[1]	**4**	3
Increase in accrued pension	**–**	–
Carried interest and performance fees payable	**5**	6
Share-based payments	**2**	3
Termination benefits[2]	**1**	1

1 For further detail, see Directors' remuneration report.

2 No termination benefits were paid to executive Directors during the year.

Statement of financial position	**Group 2013 £m**	Group 2012 £m
Bonuses and deferred share bonuses	**7**	4
Carried interest and performance fees payable within one year	**2**	4
Carried interest and performance fees payable after one year	**11**	11
Deferred consideration included within trade and other payables[1]	**11**	11

1 Deferred consideration relates to the acquisition of Mizuho Investment Management Limited on 15 February 2011.

Carried interest paid in the year to key management personnel was £6 million (2012: £6 million).

Subsidiaries

Transactions between the Company and its subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below.

Management, administrative and secretarial arrangements

The Company has appointed 3i Investments plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £23 million (2012: £23 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £105 million (2012: £86 million) for this service.

Investment entities

The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent depending on the jurisdiction of the investment. The Company receives interest on this funding, amounting in the year to 31 March 2013 to £nil (2012: £nil).

Other subsidiaries
The Company borrows funds from certain subsidiaries and pays interest on the outstanding balances. The amounts that are included in the Company's statement of comprehensive income are £nil (2012: £nil).

Fifty large investments

The list below provides information on 50 of our largest investments in respect of the Group's holding, excluding any managed or advised external funds.

These do not include seven investments that have been excluded for commercial reasons.

Investment **Description of business**	Business line Geography First invested in Valuation basis	Proportion of equity shares held %	Residual cost March 2012 £m	**Residual cost March 2013** **£m**	Valuation March 2012 £m	**Valuation March 2013** **£m**
3i Infrastructure plc Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	34.1	302	**302**	375	**398**
Action Non-food discount retailer	Private Equity Benelux 2011 Earnings	21.1	115	**107**	143	**280**
ACR Pan-Asian non-life reinsurance	Private Equity Singapore 2006 Industry metric	23.9	105	**105**	118	**121**
Element Materials Technology Testing and inspection	Private Equity Benelux 2010 Earnings	42.8	63	**70**	90	**112**
Foster + Partners[1] Architectural services	Private Equity UK 2007 Other	40.0			112	**108**
Hilite International Fluid control component provider	Private Equity Germany 2011 Earnings	25.4	99	**54**	115	**107**
Quintiles Clinical research outsourcing solutions	Private Equity North America 2008 Earnings	4.9	74	**74**	86	**103**
Mayborn Manufacturer and distributor of baby products	Private Equity UK 2006 Earnings	44.7	103	**87**	105	**97**
Mémora Funeral service provider	Private Equity Spain 2008 Earnings	34.7	116	**128**	74	**90**
Civica Public sector IT and services	Private Equity UK 2008 Earnings	40.2	92	**93**	68	**84**
	46% of total portfolio		**1,069**	**1,049**	**1,286**	**1,500**

Fifty large investments (cont'd)

Investment Description of business	Business line Geography First invested in Valuation basis	Proportion of equity shares held %	Residual cost March 2012 £m	**Residual cost March 2013 £m**	Valuation March 2012 £m	**Valuation March 2013 £m**
AES Engineering Limited Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	39.5	30	**30**	63	**79**
Eltel Networks Infrastructure services for electricity and telecoms networks	Private Equity Finland 2007 Earnings	42.6	85	**87**	68	**74**
Tato[2] Manufacture and sale of speciality chemicals	Private Equity UK 1989 Earnings	26.1	2	**2**	59	**63**
Amor Distributor and retailer of affordable jewellery	Private Equity Germany 2010 Earnings	42.1	46	**49**	55	**57**
Phibro Animal Health Corporation Animal healthcare	Private Equity North America 2009 Earnings	29.9	89	**89**	41	**57**
Trescal Calibration services	Private Equity France 2010 Earnings	23.5	31	**35**	38	**51**
Palace Street I Debt Management (Credit Opportunities Fund)	Debt Management UK[3] 2011 Broker quotes	100.0	36	**50**	35	**48**
Hobbs Retailer of women's clothing and footwear	Private Equity UK 2004 Earnings	47.0	74	**79**	49	**47**
OneMed Group Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	30.5	93	**113**	46	**47**
Hyperion Insurance Group Specialist insurance intermediary	Private Equity UK 2008 Imminent sale	19.1	21	**21**	34	**43**
	63% of total portfolio		**1,576**	**1,604**	**1,774**	**2,066**

Fifty large investments (cont'd)

Investment Description of business	Business line Geography First invested in Valuation basis	Proportion of equity shares held %	Residual cost March 2012 £m	**Residual cost March 2013 £m**	Valuation March 2012 £m	**Valuation March 2013 £m**
Geka Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity Germany 2012 Earnings	45.7	n/a	**57**	n/a	**39**
Lekolar Distributor of pedagogical products and educational materials	Private Equity Sweden 2007 Earnings	33.3	30	**33**	36	**36**
Etanco Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity France 2011 Earnings	30.3	72	**74**	67	**34**
LHI Technology Medical cable assemblies	Private Equity China 2008 Earnings	37.5	16	**16**	30	**32**
Krishnapatnam Port India Port	Infrastructure India 2009 DCF	3.0	24	**24**	31	**32**
Inspecta Supplier of Testing, Inspection and Certification (TIC) services	Private Equity Finland 2007 Earnings	39.2	51	**63**	13	**31**
Blue Interactive Cable TV and broadband provider	Private Equity Brazil 2012 Industry metric	44.0	n/a	**29**	n/a	**29**
BVG India Business services	Private Equity India 2011 Earnings	19.6	21	**21**	25	**27**
Refresco Manufacturer of private label juices and soft drinks	Private Equity Benelux 2010 Earnings	10.7	46	**46**	17	**27**
Azelis Distributor of speciality chemicals, polymers and related services	Private Equity Benelux 2007 Earnings	47.5	51	**66**	56	**27**
TouchTunes Interactive Networks Out of home interactive media and entertainment network	Private Equity North America 2011 Earnings	9.4	18	**18**	22	**27**
Navayuga Engineering and construction	Private Equity India 2006 DCF/Earnings	10.0	23	**23**	61	**26**
Polyconcept Supplier of promotional products	Private Equity Benelux 2005 Earnings	13.0	43	**48**	29	**24**
Agent Provocateur Women's lingerie and associated products	Private Equity UK 2007 Earnings	34.5	49	**49**	13	**24**
SLR Management Specialist environmental consultancy	Private Equity UK 2008 Earnings	25.9	23	**23**	23	**23**
MKM Building Supplies Builders' merchant	Private Equity UK 1998 Earnings	30.3	15	**16**	21	**23**
Loxam Holdings Professional equipment rental	Private Equity France 2011 Earnings	4.9	21	**21**	23	**21**

Fifty large investments (cont'd)

Investment Description of business	Business line Geography First invested in Valuation basis	Proportion of equity shares held %	Residual cost March 2012 £m	**Residual cost March 2013 £m**	Valuation March 2012 £m	**Valuation March 2013 £m**
Consultim Finance Wholesaler of rental real estate	Private Equity France 2007 Earnings	20.0	24	**12**	20	**20**
John Hardy Designer jewellery business	Private Equity China 2007 Earnings	23.5	15	**15**	9	**20**
Soya Concept Fashion design company	Private Equity Denmark 2007 Earnings	45.0	13	**13**	23	**20**
UFO Moviez Provider of digital cinema services	Private Equity India 2007 Earnings	27.6	11	**11**	14	**19**
KMC Roads Road BOT project construction	Infrastructure India 2011 DCF	6.9	15	**15**	16	**17**
Adani Power Power generation	Infrastructure India 2007 Quoted	1.6	26	**26**	28	**17**
Environmental Scientifics Group (ESG) Testing, inspection and compliance	Private Equity UK 2007 Earnings	38.0	32	**40**	21	**16**
GVK Energy Power generation	Infrastructure India 2010 DCF	2.8	23	**23**	22	**15**
Joyon Southside Real estate	Private Equity China 2007 DCF	49.9	8	**8**	20	**15**
Óticas Carol Designer sunglasses business	Private Equity Brazil 2013 Earnings	39.0	n/a	**14**	n/a	**14**
Indiareit Offshore Fund Indian real estate fund	Private Equity India 2006 Fund	20.0	13	**13**	12	**12**
Gain Capital Retail online forex trading	Private Equity North America 2008 Quoted	14.0	24	**23**	13	**12**
GO Outdoors Retailer of outdoor equipment, tents, clothing and footwear	Private Equity UK 2011 Earnings	16.5	17	**17**	13	**12**
	84% of total portfolio		**2,299**	**2,460**	**2,452**	**2,757**

1 The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at investment
2 Previously disclosed as non-core
3 Managed in the UK, but has investments in Europe, North America and the UK

Portfolio composition

3i direct portfolio by business line and geography (£m)

	31 March 2013	31 March 2012
Private Equity[1]		
UK	**641**	652
Continental Europe	**1,480**	1,344
Asia	**337**	355
The Americas	**200**	278
Rest of World	**6**	5
Brazil	**43**	0
	2,707	2,634
Infrastructure		
UK	**407**	383
Continental Europe	**-**	29
Asia	**100**	115
Rest of World	**-**	1
	507	528
Debt Management		
Continental Europe	**62**	42
The Americas	**19**	-
	81	42
Total	**3,295**	3,204

1 The Private Equity portfolio now includes the non-core portfolio and the prior period have been restated accordingly.

3i direct continental European portfolio value (£m)

	31 March 2013	31 March 2012
Benelux	**476**	286
France	**225**	228
Germany/Austria/Switzerland	**311**	418
Italy	**2**	6
Nordic	**317**	232
Spain	**153**	178
Other European[1]	**58**	73
Total	**1,542**	1,421

1 Other European includes investments in countries where 3i did not have an office at 31 March 2013 and also includes the investment in Palace Street I, which holds investments in several countries.

3i direct portfolio value by sector (£m)

	31 March 2013	31 March 2012
Business Services[1]	**921**	782
Consumer	**652**	537
Healthcare	**435**	335
Industrials	**573**	828
Technology, Media and Telecoms	**207**	194
Infrastructure	**507**	528
Total	**3,295**	3,204

1 Includes Financial Services.

Portfolio composition (cont'd)

3i direct portfolio value by valuation method (£m)

	31 March 2013	31 March 2012
Imminent sale or IPO	**61**	8
Quoted	**431**	535
Earnings	**2,197**	2,128
Fund	**18**	18
Industry metric	**150**	152
DCF	**237**	231
Broker quotes	**81**	42
Other	**120**	90
Total	**3,295**	3,204

3i direct Private Equity[1] portfolio value by valuation method (£m)

	31 March 2013	31 March 2012
Imminent sale or IPO	**61**	8
Quoted	**15**	132
Earnings	**2,197**	2,129
Fund	**18**	17
Industry metric	**150**	152
DCF	**146**	108
Other	**120**	88
Total	**2,707**	2,634

1 The Private Equity portfolio now includes the non-core portfolio and the prior period has been restated accordingly.

3i direct Infrastructure portfolio value by valuation method (£m)

	31 March 2013	31 March 2012
Quoted	**416**	403
DCF	**91**	123
Other	**-**	2
Total	**507**	528

3i direct Debt Management portfolio value by valuation method (£m)

	31 March 2013	31 March 2011
Broker quotes	**81**	42
Total	**81**	42

Investment

Investment by business line and geography (£m)

	Year to 31 March 2013	Year to 31 March 2012
Private Equity		
UK	**31**	99
Continental Europe	**147**	405
Asia	**13**	18
The Americas	**43**	18
	234	540
Infrastructure		
UK	**-**	34
Continental Europe	**-**	28
Asia	**5**	8
The Americas	**-**	-
	5	70
Debt Management		
UK	**-**	-
Continental Europe	**13**	36
Asia	**-**	-
The Americas	**18**	-
	31	36
Total	**270**	**646**

3i direct continental European investment (£m)

	Year to 31 March 2013	Year to 31 March 2012
Benelux	**22**	142
France	**9**	120
Germany/Austria/Switzerland	**63**	99
Italy	**2**	2
Nordic	**38**	48
Spain	**18**	22
Other European[1]	**8**	36
Total	**160**	469

1 Other European includes investment in Palace Street I (the Credit Opportunities Fund).

Investment (cont'd)

3i direct investment by sector (£m)

	Year to 31 March 2013	Year to 31 March 2012
Business Services[1]	**85**	141
Consumer	**24**	157
Healthcare	**25**	25
Industrials	**83**	182
Technology, Media and Telecoms	**48**	69
Infrastructure	**5**	70
Other	**-**	2
Total	**270**	646

1 Includes Financial Services.

3i direct investment by type (£m)

	Year to 31 March 2013	Year to 31 March 2012
New/first investment	**128**	374
Acquisition finance	**2**	12
Other portfolio investment[1]	**35**	17
Other	**7**	61
Total cash investment	**172**	464
Non-cash investment[2]	**98**	182
Total gross investment	**270**	646

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

2 Includes capitalised interest and unsettled trades in Palace Street I.

Investment by business line (including managed and advised external funds) (£m)

	Year to 31 March 2013	Year to 31 March 2012
Private Equity	**369**	888
Infrastructure	**35**	296
Debt Management	**30**	36
Total	**434**	1,220

Investment by geography (including managed and advised external funds) (£m)

	Year to 31 March 2013	Year to 31 March 2012
UK	**48**	185
Continental Europe	**279**	954
Asia	**46**	57
The Americas	**61**	24
Total	**434**	1,220

Realisations

Realisations by business line and geography (£m)

	Year to 31 March 2013	Year to 31 March 2012
Private Equity		
UK	**149**	75
Continental Europe	**201**	670
Asia	**3**	16
The Americas	**222**	9
	575	770
Infrastructure		
UK	**1**	1
Continental Europe	**30**	-
Asia	**-**	-
The Americas	**-**	-
	31	1
Debt Management		
UK	**-**	-
Continental Europe	**-**	-
Asia	**-**	-
The Americas	**-**	-
	-	-
Total	**606**	771

Realisations proceeds by type (£m)

	Year to 31 March 2013	Year to 31 March 2012
Trade sales	**362**	291
Secondaries	**54**	349
Loan repayments	**6**	18
Quoted asset sales	**117**	76
Other	**67**	37
Total	**606**	771