# Accounting policies

**A Accounts presentation and convention** These accounts have been prepared under the historical cost convention modified to include certain investments and fixed assets at valuation and in accordance with the revised Statement of Recommended Practice – Financial Statements of Investment Trust Companies ("revised SORP") – and applicable accounting standards, except as described below concerning the treatment of capital profits.

As the Company is a deposit taker regulated by the Financial Services Authority, the accounts have also been prepared in accordance with the requirements of Part VII of the Companies Act 1985 in respect of banking companies and groups.

The Articles of Association of the Company prohibit the distribution of its capital profits. Accordingly, the Company's capital profits, shown in note 40, are included in the capital reserve. In order to use consistent accounting policies in the Group accounts, the capital profits of subsidiary undertakings have been excluded from consolidated revenue and included in capital reserve. These capital profits of subsidiary undertakings are distributable. The Revenue statement of the Company has been omitted from these accounts in accordance with section 230 of the Companies Act 1985.

The recommendations contained within the revised SORP, issued by the Association of Investment Trust Companies in January 2003, have been adopted in these accounts. As a result, fee income and costs earned or incurred as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for in full as part of capital return, as opposed to being credited to revenue or allocated between revenue and capital. To the extent that taxation losses have been transferred between capital and revenue in order to be utilised against excess taxable profits, the transfer is reflected in the Statement of total return, Revenue statement and note 14. The adoption of these recommendations has had no effect on total return and, as a result, in accordance with the revised SORP, comparatives have not been changed.

Administrative expenses associated with making and managing investments and finance costs are allocated between capital and revenue. During the year, the methodology used to identify those administrative expenses available for allocation has been revised; this has resulted in a higher level of expenses being available. The allocation of finance costs has been revised to reflect the trend of returns within the portfolio. These returns have become increasingly based on total investment packages as opposed to the individual investment instruments making up the package. In order to reflect this, all finance costs less interest income on surplus funds has been allocated between revenue and capital. In the year to 31 March 2001, the proportion of available costs allocated to capital reserve was increased from 70% to 80%, this was to reflect returns moving in favour of capital returns due to higher technology investment. This allocation has now reverted to 70% for both administrative expenses and net finance costs. In accordance with the revised SORP, comparatives have not been restated.

**B Joint ventures and associated undertakings** Entities whose business is in a field of activity which is closely related or complementary to that of the Group and in which holdings are intended to be retained on a long term basis and are jointly controlled by the Group and one or more venturers under a contractual agreement are treated as joint ventures. These joint ventures are accounted for using the gross equity method of accounting.

The Directors believe that equity accounting for investments which may come within the Companies Act definition of associated undertakings, because 3i exerts significant influence, would not give a true and fair view of the income from the investment activities of the Group, since this is better measured by the inclusion of dividends and interest income. It is impracticable to quantify the effects of this departure. The treatment adopted is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

**C Goodwill** Goodwill is the difference between the cost of acquisition of shares in subsidiary undertakings and joint ventures and the aggregate fair value of the entity's identifiable assets and liabilities at the date of acquisition. Goodwill is capitalised as an intangible asset and amortised over its estimated useful economic life. This amortisation is allocated between revenue and capital based on the expected future split of returns of the businesses acquired. At each balance sheet date, consideration is given to the effect changing circumstances have on the value of goodwill.

**D Fixed assets in use by the Group** Fixed assets in use by the Group are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years; computer equipment three years; computer software three years; motor vehicles four years. Properties in use by the Group are included at external professional valuation, which is carried out at each balance sheet date. Depreciation is not provided against the value of the buildings as the amount is immaterial and impairment is considered annually. Motor vehicles being acquired on hire purchase are capitalised in the balance sheet and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the revenue account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

**E Financial fixed assets** Loan investments, fixed income and equity share investments, together with interests in joint ventures and the shares in Group undertakings, are regarded as financial fixed assets as they are held for long term investment purposes.

**F Valuation of financial fixed assets and investment properties** Investment packages comprising mixtures of equity shares, fixed income shares and loan investments, together with financial fixed assets of joint ventures, are included at valuation on the following bases:

***a*** Listed investments are valued at mid-market price.

***b*** Quoted shares for which an active market exists elsewhere are valued at mid-market price, except for shares quoted on secondary markets which are valued at latest traded price less an appropriate discount for illiquidity.

***c*** Unquoted equity shares are valued by the Directors as follows: where the latest accounts show a profit, the valuation is made by reference to a price based on the application to the latest reported earnings of price-earnings ratios appropriate to similar listed investments. If the resultant valuation is less than half the book amount of net assets in those accounts, the valuation is based on half the book amount of those assets. Where the latest accounts show a loss, the valuation is based on half the book amount of net assets in those accounts. In each of these cases an appropriate discount is applied to the valuations to reflect restricted marketability and where appropriate they are modified to take account of special factors relating to each investment which are considered to affect the valuation. Where no accounts have been received for a period following the initial investment, the investment is valued at cost. For technology companies where cost or carrying value is no longer considered appropriate, the valuation is changed to fair value using the most appropriate criteria available.

***d*** Unquoted fixed income shares and loan investments are valued at the lower of cost or recoverable amount.

***e*** In all of the above categories of investment where failure has occurred the loss is charged against realised capital profits.

***f*** Deferred consideration is included at the estimated present value of the expected proceeds. Investment properties are included at external professional valuation.

**G Income recognition** Dividends receivable on listed shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the right to receive payment is established. The fixed return on a loan investment is recognised on a time apportionment basis so as to reflect the effective yield on the loan. Other income, including interest receivable from derivatives, is recognised on the accruals basis except for income from finance leases and hire purchase contracts, which is credited to revenue so as to result in a constant periodic rate of return on the net cash investment.

**H Administrative expenses** Administrative expenses which comprise the costs of making and managing investments and the management of the Group are accounted for on an accruals basis. Costs associated with making and managing investments are allocated to revenue and capital profits. Costs of management of the Group are charged to revenue profit. Costs incurred as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for in full as part of capital return as opposed to being allocated between revenue and capital.

**I Finance costs** Finance costs, including those of derivatives, are accounted for on an accruals basis. Discounts, premiums and expenses arising on the issue of bonds and notes are amortised over the period of the related borrowing.

Finance costs of borrowing that relates to the financing of investments where future capital profits as well as revenue profits can be earned, are allocated to revenue and capital profits. Other finance costs are charged to revenue profit.

**J Trading assets** Loans and advances to customers and other non-investment assets are carried at the lower of book amount and recoverable amount.

**K Deferred tax** Provision is made for deferred tax, using the liability method, on all material timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided at a rate at which it is anticipated the timing difference will reverse. Deferred tax assets are recognised only when there is evidence that there will be taxable profits in the future to offset the deferred tax asset.

**L Foreign currency translation** Foreign currency revenue items, assets and liabilities, including those of non-UK subsidiary undertakings, are translated into sterling at the exchange rates ruling at the balance sheet date, with the exception of borrowings covered by forward exchange contracts which are translated at the contracted rates of exchange. Exchange adjustments arising on the translation of investments, borrowings and net assets including those of overseas subsidiary undertakings are dealt with through the appropriate reserves. Exchange adjustments arising on realised transactions are dealt with in the revenue or capital profit for the period as appropriate.

**M Pensions** Contributions made to pension schemes are charged so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual periods using the projected unit method. Variations in pension cost, which are identified as a result of independent actuarial valuations, are spread over the average remaining service lives of the current employees. To the extent to which such costs, after interest, do not equate with cash contributions an accrual or prepayment is recognised in the balance sheet.