



3i Group plc Report and accounts 2008



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This Annual report and accounts may contain certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i"). Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Further information

You will see these symbols used throughout this report. They point you towards further information either within the report or online. We hope you find them useful.



Information online



Information in this report

Annual and half-yearly reports online

To receive shareholder communications electronically in future, including your annual and half-yearly reports and notices of meetings, please go to www.3igroup.com/e-comms to register your details.

Introduction

3i is a world leader in private equity. We focus on buyouts, growth capital, infrastructure and quoted private equity, investing across Europe, Asia and the US.

Our purpose:

to provide quoted access to private equity returns.

Our vision:

to be the private equity firm of choice:

- operating on a world-wide scale;
 - producing consistent market-beating returns;
 - acknowledged for our partnership style; and
 - winning through our unparalleled resources.
-

Our strategy:

- to invest in high-return assets;
 - to grow our assets and those we manage on behalf of third parties;
 - to extend our international reach, directly and through investing in funds;
 - to use our balance sheet and resources to develop existing and new business lines; and
 - to continue to build our strong culture of operating as one company across business lines, geographies and sectors.
-

Group financial highlights

Year to/as at 31 March	2008	2007
Business activity		
Investment	£2,160m	£1,576m
Realisation proceeds	£1,742m	£2,438m
Returns		
Gross portfolio return	£1,041m	£1,406m
Total return	£792m	£1,075m
Total return on opening shareholders' funds	18.6%	26.8%
Dividend per ordinary share	17.0p	16.1p
Assets under management		
Own balance sheet	£6,016m	£4,362m
Third-party funds	£3,776m	£2,772m
Total assets under management	£9,792m	£7,134m
Balance sheet		
Gearing	40%	0%
Diluted net asset value per ordinary share	£10.77	£9.32

Portfolio value by business line (£m) as at 31 March	2008	2007
Buyouts	2,025	1,281
Growth Capital	2,366	1,460
Infrastructure	501	469
Quoted Private Equity Limited ("QPE")	142	20
Smaller Minority Investments ("SMI")	244	391
Venture Capital	738	741
Total	6,016	4,362

Chairman's statement

"A good performance in challenging markets."



Against a background of financial turmoil and weakening stock markets, 3i achieved substantial growth in net asset value, and successfully continued its strategy of raising external funds to accelerate growth in assets under management.

The total return of £792 million for the year to 31 March 2008 represented an 18.6% return on opening shareholders' funds, close to the five-year average of 20.4%. The Board is recommending a final ordinary dividend of 10.9p, making a total ordinary dividend for the year of 17.0p per share, up 5.6% on last year.

The contribution from our mid-market Buyouts business was exceptionally strong. The Growth Capital business performed well and will in future include the results of later-stage technology investing which shares the same characteristics as growth investing in other sectors. Venture Capital will continue to be reported as a separate business line until all assets are disposed of, although no new early-stage venture investments will be made. Our new Quoted Private Equity business has been a cautious investor due to unsettled markets while Infrastructure has continued to focus on opportunities with long-term contractual cash flows that make this asset class attractive to investors in an uncertain environment.

Over the past three years, we have taken advantage of strong demand to realise over £6 billion from our portfolio, at an average uplift over the opening value of these assets at the beginning of each year of 43%. Over this same three-year period we have returned just over £2 billion to shareholders, improving our capital efficiency, and raised funds totalling over £5 billion including a commitment of £2.5 billion from 3i. We closed the latest of these funds, an unquoted vehicle for investing in Indian infrastructure, above target in March 2008 at \$1.2 billion.

With so much uncertainty still clouding economic prospects in the major economies, we take a cautious view of the coming year. Management has for some time made it clear that realisations were expected to slow, as time would be needed to fulfil the growth plans of newly-acquired assets and realise full value from these investments, and we will be taking a highly selective approach to investment.

Our existing €550 million convertible bond matures in August. It has provided a great deal of flexibility in our capital planning, at attractive rates of return. We have therefore decided to replace it with a new circa £425 million similar bond.

At times like these, 3i's standards of transparency and accountability, reinforced by 14 years' experience as a quoted company, serve the Company well. In our annual reports, which have been widely praised by observers of both private equity and quoted companies, we strive to provide our shareholders with a detailed picture of our approach to investment, valuation and risk management. This also stood us in good stead at a time of unprecedented interest in the industry and some challenge to its reputation.

This led the British Private Equity and Venture Capital Association to invite Sir David Walker to set up a working group on transparency and accountability, of which I was delighted to be a member. This annual report is fully in compliance with Sir David's guidelines, as explained on page 122. Moreover, we have taken again the opportunity to increase disclosure beyond that, by providing more detailed information on our valuation methodology (see page 106).

In the following pages, Philip Yea and his management team provide updates on the business lines, geographies and sectors in which 3i operates, with Asia showing the most significant growth. At Board level, there will be only one change at our AGM: as I intimated last year, Fred Steingraber, who has been a non-executive Director since the beginning of 2002, will be retiring. Fred's international experience has been especially helpful to the Board over the last six years and I would like to thank him for his important contribution.

We start the year at a moment of great uncertainty as to the impact of the credit crunch, energy prices and raw material costs on economic activity, and as to whether these pressures can be managed by the world's monetary authorities without precipitating recession or a sharp rise in inflation. We believe that our mid-market focus, a portfolio well-diversified by sector, geography and type of investment, and the quality of our Board and management team, provide a combination that positions us well to meet these challenges and build further value for shareholders.

Baroness Hogg Chairman
14 May 2008

3i at a glance

3i is a mid-market private equity business making and managing investments in Europe, Asia and the US. 3i Group plc is a FTSE 100 company, providing shareholders with quoted access to private equity returns. Investments are made with capital from the Group's own balance sheet and from funds which the Group manages or advises for others.

Buyouts

Focusing on leading mid-market transactions primarily in Europe but also in Asia, with an enterprise value of typically up to €1 billion. Investments are generally made through Limited Partnership private equity funds.

Growth Capital

Making minority investments of typically up to €250 million in established and profitable businesses across Europe, Asia and the US. Investments are generally made using 3i's own balance sheet resources. From 1 April 2008, all late-stage technology and healthcare minority investment will also be conducted through this business line.

Infrastructure

Investing in a broad range of international infrastructure assets, principally in transportation, utilities and social infrastructure. Investments are made by 3i Infrastructure Limited, a quoted company which is advised by 3i, the 3i India Infrastructure Fund, or from 3i's own balance sheet resources.

Gross portfolio return

57% (2007: 54%)

Gross portfolio return

21% (2007: 48%)

Gross portfolio return

14% (2007: 16%)

Financial performance (£m)

year to/as at 31 March 2008

Investment	788
Realisation proceeds	858
Realised profits	370
Unrealised value movement	245
Portfolio income	116
Gross portfolio return	731
Fees receivable from external funds	39
Assets under management	
Own balance sheet	2,025
Third-party funds	2,594
	4,619

Financial performance (£m)

year to/as at 31 March 2008

Investment	990
Realisation proceeds	503
Realised profits	75
Unrealised value movement	160
Portfolio income	67
Gross portfolio return	302
Fees receivable from external funds	2
Assets under management	
Own balance sheet	2,366
Third-party funds	183
	2,549

Financial performance (£m)

year to/as at 31 March 2008

Investment	38
Realisation proceeds	57
Realised profits	6
Unrealised value movement	43
Portfolio income	18
Gross portfolio return	67
Fees receivable from external funds	18
Assets under management	
Own balance sheet	501
Third-party funds	712
	1,213



For further information on Buyouts please go to **page 12**

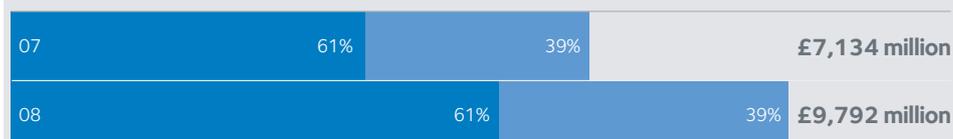


For further information on Growth Capital please go to **page 16**



For further information on Infrastructure please go to **page 20**

Assets under management



Owned Third-party

QPE

Creating value with the management teams of quoted companies through applying 3i's private equity skill base, network and resources. Investments are made through 3i Quoted Private Equity Limited, a listed company which is advised by 3i.

SMI

Managing and realising 3i's older smaller minority investments.

Venture Capital

Following the transition of 3i's early and late-stage technology investment business line to a late-stage investment business, from 1 April 2008 a Venture Portfolio team will manage the existing portfolio and all new late-stage technology investments will be made within the Growth Capital business line.

Gross portfolio return

n/a (2007: n/a)*

Gross portfolio return

0% (2007: 13%)

Gross portfolio return

(2)% (2007: (6)%)

Financial performance (£m)

year to/as at 31 March 2008

Investment	182
Realisation proceeds	18
Realised profits	–
Unrealised value movement	(42)
Portfolio income	–
Gross portfolio return	(42)
Fees receivable from external funds	1
Assets under management	
Own balance sheet	142
Third-party funds	269
	411

Financial performance (£m)

year to/as at 31 March 2008

Investment	6
Realisation proceeds	136
Realised profits	7
Unrealised value movement	(27)
Portfolio income	20
Gross portfolio return	–
Fees receivable from external funds	–
Assets under management	
Own balance sheet	244
Third-party funds	–
	244

Financial performance (£m)

year to/as at 31 March 2008

Investment	156
Realisation proceeds	170
Realised profits	65
Unrealised value movement	(88)
Portfolio income	6
Gross portfolio return	(17)
Fees receivable from external funds	–
Assets under management	
Own balance sheet	738
Third-party funds	18
	756

*Fund launched June 2007



For further information on Quoted Private Equity please go to [page 22](#)



For further information on SMI please go to [page 29](#)



For further information on Venture Capital please go to [page 24](#)

Chief Executive's statement

"Total return was underpinned by continued exceptional returns from our Buyouts business and good returns from our Growth Capital and Infrastructure businesses."

3i achieved a strong performance in the year to 31 March 2008, delivering a return on opening shareholders' funds of 18.6% as well as a 37% growth in assets under management. This result was achieved despite the significant changes in financing markets which took place during the year. These very changed market conditions set the back drop for my review as I recognise that no matter how good our performance has been, in the current more uncertain environment it is the outlook and how 3i is positioned that are likely to be of most interest to shareholders.

My report to you coincides with a period of considerable uncertainty. The 12 months to 31 March 2008 have seen a significant adverse change in the outlook for the world's economy and have revealed major flaws in the soundness of the global financial system, the full consequences of which have still to be understood. It is likely to be some time before the extent of the downturn in the real economies will be seen and even longer before it will be possible to judge the effects of the credit crunch.

"A significant adverse change in the outlook for the world's economy."

For some time we had felt that the buoyancy of the debt markets was not sustainable and that investments made over the recent period would be unlikely to benefit from such positive conditions on exit. However, the extent of the fallout from the sub-prime crisis and its effect on mergers and acquisitions markets, and the financing markets more generally, were not predicted by most, including us.

Against this background, whilst we have been maintaining our focus on the long-term development of 3i, the last 12 months have seen us being even more selective in our new investment and active in our engagement with portfolio companies. Our investment selection process has increasingly favoured companies with recurring income streams and more defensive qualities. Our relationships in the mid-market, particularly those with banks, have allowed transactions to be completed, albeit on terms closer to those of three years ago.

"Maintaining our focus on the long-term development of 3i."

The number of first new investments fell from 62 to 47 but, consistent with both the market and our own strategy, the average size of these first investments increased significantly from £26 million to £37 million, and so total investment levels increased from £1,576 million to £2,160 million, with strong figures from both Buyouts and Growth Capital. £182 million of this year's figure was to seed our new QPE business line; whereas the prior year figure included our £91 million cash investment in the newly-created 3i Infrastructure Limited.

As anticipated at the start of last year, due to the relative immaturity of the portfolio, realisations slowed from last year's exceptional £2,438 million to £1,742 million. At year end, our portfolio of investments numbered 487 (2007: 762). The most significant change was in our SMI run-off portfolio, where we ended the year with just 92 positions, down from 293 a year ago and some 1,079 in 2004 when we started the disposal programme.

Assets on the 3i Group balance sheet grew to £6,016 million from £4,362 million a year earlier, and third-party funds rose again, reaching £3,776 million, an increase from £2,772 million at 31 March 2007. These figures showed excellent progress in delivering a key element of our strategy, which is to grow assets under management. Closing assets under management were £9,792 million (2007: £7,134 million).

"37% growth in assets under management."

Total return of 18.6% (2007: 26.8%) was underpinned by continued exceptional returns from our Buyouts business and good returns from our Growth Capital and Infrastructure businesses. Our Venture Capital and QPE businesses both produced negative returns and our SMI run-off portfolio's gross return was break even. With lower realisations, and lower market multiples at year end, a significant element of the return came from improved earnings within the portfolio as well as continued strong realisation profits on those assets that were sold. The favourable mark-to-market of the derivative element of the Group's €550 million convertible bond contributed £162 million of return, reversing last year's negative £62 million. Provisions rose to £188 million from last year's exceptionally low figure of £71 million.

Net asset value per share grew by £1.45 (16%) to £10.77. The increase before dilution due to the B share issue and dividends, was £1.94, representing a 21% return.



During the year, we undertook a regular review of our investment business to determine its future shape in terms of geography, sector and asset class. The recent evolution of our Venture Capital business towards later-stage investing has brought it closer to the long-standing remit of our Growth Capital business and so we have decided to combine these businesses by creating Technology and Healthcare teams within an expanded Growth Capital mandate. On a more opportunistic basis, in view of the recent market dislocations, our Buyouts business has acquired selective leveraged debt assets on a prudent basis. This is not only to produce private equity like returns but also to give us the opportunity to consider extending this business should market conditions allow.

“The recent evolution of our Venture Capital business towards later-stage has brought it closer to Growth Capital.”

The relatively benign environment of the last few years has allowed 3i to reshape itself by expanding geographically, broadening its asset classes, and increasing third-party funds under management, and to make major investments in people and process without compromising shareholder expectations.

The results of this reshaping will be seen over the next few years as the capabilities that we have recently built deliver further profitable assets for the Group and additional income streams from third-party funds.

This also means that in the coming year our key performance indicator of net costs as a percentage of opening portfolio value will continue its progress towards our long-term objective of 3.0%.

Strategic development continued in the year with the launches of 3i Quoted Private Equity Limited and the 3i India Infrastructure Fund, the development of our US Growth Capital business and continued international expansion. We closed the year with total assets under management of approximately €12 billion, and believe that we can grow this figure to over €20 billion by the end of 2010, by which time around half these assets could be managed or advised funds, rather than on 3i's own balance sheet.

“We believe that we can grow assets under management to over €20 billion by the end of 2010.”

Our people are critical to our continued success, and how we encourage their engagement with the firm's agenda and reward their contribution to our success, both financial and otherwise, are key responsibilities of our senior team. “Carried interest” schemes have attracted considerable comment over the last 12 months, much of it mis-informed and mostly unfavourable. Given the recent excesses of the banking system, it is timely for those of us in the private equity industry to emphasise that carried interest schemes only pay out on the realisation of investments, and are aligned with the interests of the capital provider, whether 3i itself or our third-party investors.

As an investment company, 3i will routinely face mis-matches in timing between making new investments and achieving disposals. This was the case last year when, as anticipated, new investment exceeded disposals by £418 million. Having also returned £808 million to shareholders last year through an issue of B shares, and made further on-market repurchases of £120 million, 3i ended the year with gearing at 40%.

Over the last few years, we have benefited from the financial flexibility which our €550 million convertible bond has provided. As this bond matures during the course of 2008, our strategy is to maintain such flexibility by refinancing it through the issue of a new bond structured at an effective 60% conversion premium to 3i's share price at launch.

In these markets, liquidity is at a premium. We start the new year with liquid resources plus undrawn facilities of £1,082 million. Looking forward, although we are seeing a significant level of new investment opportunities, nevertheless we are targeting maintaining a broadly similar level of debt by the end of the current financial year, with a potentially modest increase in gearing during the intervening period as investments and divestments take place.

“Our strategy is as relevant today as a year ago.”

There is, of course, continuing uncertainty in many of our markets. History shows that whenever the mergers and acquisitions markets go through a period of adjustment such as this, there is a time lag during which price expectations are not fully matched, and so activity is less predictable. However, compared to previous periods of economic adjustment, the positive influence of the fast-growing economies of Asia during this period brings very different dynamics to the outlook for the world economy. Our portfolio is generally performing very well but is not immune to general economic conditions. Our strategy is as relevant today as a year ago.

As a consequence, we enter the new year confident in our strategy and realistic in outlook, intending to make further progress and to build on the significant investment of the last few years.

Philip Yea Chief Executive
14 May 2008

Business review Group business

This review provides an overview of our main activities, principal markets, Group and business line performance and risk management. It also describes our key financial performance measures and our performance against them.

The key Group financial performance measures are:

	2008	2007
Total return	18.6%	26.8%
Gross portfolio return	23.9%	34.0%
Cost efficiency	5.0%	5.3%
Gearing	40%	0%
Net asset value growth*	£1.94	£2.24

*Growth in NAV is stated before dividends and other distributions to shareholders.

The key business line performance measures are:

Gross portfolio return
Portfolio health
Long-term IRRs by vintage

The key non-financial performance measures are:

Employee engagement
Environmental impact

Introduction to the Group

3i is a world leader in private equity investing across Europe, Asia and the US. We invest from our own balance sheet and also with funds that we advise or manage on behalf of others. Total assets under management at 31 March 2008 were £9.8 billion, including £3.8 billion advised or managed on behalf of third parties.

The Group's vision is to be the private equity firm of choice: operating on a world-wide scale; producing consistent market-beating returns; acknowledged for our partnership style; and winning through our unparalleled resources.

Our strategy for achieving this vision, along with a summary of our progress with respect to each element, the key risk factors involved and statistics relating to our performance is set out on pages 10 and 11.

Governance, accountability and alignment of interests are key elements of the private equity model. 3i achieves this by making investments through distinct business line partnerships, which operate internationally and draw upon the combined resources of the Group.

Detailed descriptions, performance data and commentaries for each of our Buyouts, Growth Capital, Infrastructure, Quoted Private Equity and Venture Capital business lines can be found on pages 12 to 27, together with case studies of our most significant investments and realisations.

3i operates in a number of distinct geographical and sector markets. The market for each of our business lines has its own specific characteristics. However, the environment and competitive landscape for all of them is influenced by the broader macroeconomic context, as well as the strength of the capital markets, the level of private equity funds raised and invested, and the extent of mergers and acquisitions activity.

Market conditions

After four years of strongly positive influences, the sub-prime lending crisis in the US which emerged in summer 2007, together with the subsequent volatility in capital markets and debt markets, not only disrupted mergers and acquisitions markets but also led to a more challenging and uncertain economic outlook. A description of the effect of these conditions is detailed in the "Market" sections in each of our business line reviews on pages 12 to 27.

The impact on the private equity industry as a whole has been most pronounced in the large leveraged buyout ("LBO") market in the US and in Europe, where new LBO investment activity has come to a virtual standstill because of the lack of availability of suitably-sized debt packages. In the European mid-market buyouts market, which is where 3i's Buyouts business operates, debt has remained available for new investments, albeit on terms and conditions more reflective of the market in 2004 and 2005 than in 2007. All of our business lines are influenced by the slow down in the realisations market and the broader macroeconomic uncertainty, although the underlying performance of the portfolio remains good.

Overall, global private equity fundraising remained strong in 2007 at €566 billion (2006: €532 billion), according to Private Equity Intelligence data. Preliminary statistics for calendar year 2007, released by the European Private Equity and Venture Capital Association ("EVCA") in March 2008, show that European private equity firms raised a total of €74 billion in 2007 (2006: €112 billion) and invested €86 billion (2006: €50 billion). However, data from unquote, shows that whereas deals with an enterprise value of over £1 billion fell by over 50% in quarter four compared to quarter two of 2007, the number of mid-market transactions was only 4% lower.

3i investment teams:

Benelux
China
France
Germany
India
Italy
Nordic
Singapore
Spain
Switzerland
UK
US

**3i's investments in funds:**

Central Europe
China
India
Israel
Japan
Korea
Russia
United Arab Emirates

Although there is no single source that accurately tracks the European growth capital market in which 3i operates, our own data suggests that there was a 36% increase in the amount invested to €4.8 billion in 2007.

According to Asian Venture Capital Journal statistics, the Asian markets in which 3i operates directly (China, India, North Asia and South East Asia) continued to grow strongly with a 20% increase in investment.

3i's approach

3i is a highly selective investor and made 47 new investments during the year to 31 March 2008 (2007: 62), across a range of sectors, regions and types of investment. As can be seen from the tables on pages 35 and 36, the portfolio is well diversified in terms of investment type, geography and sector. Consistent with our investment strategy, the number of new investments in the period was lower, principally because of a decrease in the number of early-stage technology investments.

Since 2005, our Venture Capital business has moved away from predominantly early-stage technology and healthcare investments towards late-stage investing. From 1 April 2008, we have formalised this process such that all new late-stage technology and healthcare minority investments will be made by the Growth Capital business line and the existing Venture Capital business line portfolio will be managed as a standalone activity.

Private equity thrives on change, and strategic shifts within economies and sectors drive activity both in terms of investment and realisations. 3i's local presence and dedicated sector-focused teams continue to enable us to achieve competitive advantage in originating investment opportunities, assessing them and in managing and realising value.

As a returns-focused business, we set clear targets for our key performance measures at a Group and business line level. For the Group, these targets are set out in the relevant sections of the Financial review. For the business lines, they are contained within each of the business line reviews on pages 12 to 27.

We employed an average of 772 people in the year (2007: 765), working in focused teams in 14 countries across three continents in a matrix structure. The key dimensions of this matrix are business line, geography and sector, with each business line unified through common carried interest schemes and processes. Our internal professional services teams are incentivised on Group performance.

The high levels of staff engagement achieved by the Group, which are reported on page 51, continue to be supported by our "One room: One firm" culture. This is underpinned by a clear set of values and developed through combining capabilities and knowledge, aligning interests and by selecting the "best team for the job" from our internal and external resources around the world. Our culture is performance-based and highly collaborative and requires continuous investment in our people and in our communications.

3i's values and our non-financial key performance measures are set out in our Corporate responsibility report on pages 44 to 53. This report also describes our approach and performance with respect to corporate responsibility, both from the perspective of 3i as a company and 3i as an investor.

Investment policy

3i is an investment company which aims to provide its shareholders with quoted access to private equity returns. Currently, our main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and North America. The geographies, economic sectors, funds and asset classes in which we invest continue to evolve as opportunities are identified.

Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.

We seek to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of our investment portfolio. In addition, although we do not set maximum exposure limits for asset allocations, as an approved UK investment trust, no more than 15% of the Group's portfolio can be held in a single investment.

Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. We do not set minimum or maximum levels of gearing. However, we are nonetheless committed to achieving balance sheet efficiency. The Board of Directors currently consider it appropriate to aim to operate with an optimum gearing ratio of debt to shareholders' funds within a 30% to 40% range across-the-cycle. Since our flotation in 1994, our gearing has fluctuated between 0% and 52%.

Business review Our strategy

Achieving our vision depends upon a clear strategy, ensuring that we measure our progress towards reaching our strategic goals and taking account of the key risks involved and how they change. Here is a summary of where we are today.

Strategy

Invest in high-return assets

Achieving our vision and delivering our return objectives across the cycle depends upon making high-quality investments.

Grow our assets and those we manage on behalf of third parties

Combining growth in assets with our investment disciplines will enable us to grow shareholder value.

Extend our international reach, directly and through investing in funds

International expansion supports asset growth, provides competitive advantage and delivers significant added value to our portfolio companies.

Use our balance sheet and resources to develop existing and new business lines

3i's permanent capital base, FTSE 100 status, credit rating and strong cash flow provide the platform, resources and credibility to grow.

Continue to build our strong culture of operating as one company across business lines, geographies and sectors

Every aspect of our vision depends upon our people, the strength of their relationships and the way they work together.

Progress

- Gross portfolio return of 23.9% is in line with targets and has exceeded 20.0% for the past three years.
- Earnings growth in the portfolio generated £307 million of return (2007: £142 million).

- The directly-held portfolio increased in value by 38% in the year, from £4,362 million to £6,016 million, following investments in 47 new assets (2007: 62) and value growth in the opening portfolio.
- External funds increased following the £400 million listing of 3i Quoted Private Equity Limited in June 2007 and the final close of 3i India Infrastructure Fund, announced in April 2008 at \$1.2 billion.

- 3i now operates from 22 offices, 18 of which are based outside the UK.
- Asia now represents 11% (2007: 9%) of the 3i direct portfolio value and the US 8% (2007: 7%).
- US investment has increased from £92 million to £303 million, mainly due to new Growth Capital opportunities.
- 3i's investments in nine private equity funds in emerging markets continue to extend our international reach.

- Two new business lines were established last year, Infrastructure and Quoted Private Equity. Both have subsequently listed on the London Stock Exchange.
- A new fund has been raised to address the infrastructure opportunity in India.
- Buyouts and Growth Capital have invested £788 million and £990 million respectively, an increase of 58% and 105% on the previous financial year.

- Our 2008 staff engagement survey shows a very high level of engagement and commitment to 3i's goals. Employee engagement is the extent to which employees are committed to their role, their team and the Group and its objectives.
- Our Business Leaders Network for Chairmen and Chief Executives is now operating in Europe, Asia and the US.

Key risk factors

- Quality of origination, review and execution processes, including consideration of corporate responsibility issues.
- Pricing of assets on entry and exit.
- Strength of asset management.
- Timing of exit.

- Need to build capabilities before committing capital.
- Adequacy of Group funding for balance sheet investing.
- Availability of third-party investors to build assets under management.

- Effectiveness of knowledge management and sharing.
- Changes in local legal and regulatory frameworks.
- Maintenance of control environment.
- Managing corporate responsibility issues appropriately.

- Appropriateness of capital structure.
- Availability of non-financial resources.
- Quality of opportunities identified, analysed and implemented.

- Ability to attract, develop and retain people with requisite skills, experience and cultural fit.
- Effectiveness of knowledge management and sharing.
- Effectiveness of decision making in a matrix structure.
- Flexibility of resourcing model to adapt to change.

Performance

Gross portfolio return by year (%)

year to 31 March

04	19.4
05	16.7
06	24.4
07	34.0
08	23.9

Growth in assets under management (£m)

as at 31 March

04	4,362	2,475	6,837
05	4,317	1,913	6,230
06	4,139	1,573	5,712
07	4,362	2,772	7,134
08	6,016	3,776	9,792

■ 3i's direct portfolio ■ Managed and advised by 3i

Portfolio value by geography

as at 31 March

	2008 £m	2008	2007 £m	2007	2006 £m	2006
Continental Europe	2,573	43%	1,894	43%	1,923	47%
UK	2,250	38%	1,792	41%	1,736	42%
Asia	679	11%	373	9%	167	4%
US	497	8%	283	7%	307	7%
Rest of World	17	–	20	–	6	–
Total portfolio value	6,016	100%	4,362	100%	4,139	100%

Assets under management by business line

as at 31 March

	2008 £m	2007 £m
Buyouts	4,619	3,410
Growth Capital	2,549	1,687
Infrastructure (March 2007)	1,213	854
QPE (June 2007)	411	20
SMI	244	407
Venture Capital	756	756
	9,792	7,134

Employee engagement

The 2008 staff survey, in which 92% of staff took part (2007: 78%) showed a high level of engagement, with a score of 84% (2007: 87%). High scores from questions which test employee engagement have a direct positive impact on employee retention and productivity.

Corporate responsibility

- 3i is a member of the Dow Jones Sustainability Index.
- 3i is one of Business in the Community's top 100 Companies that Count.
- 3i's Corporate responsibility report for 2006 was awarded top place at the 2007 IR Society Best Practice awards.

Business review Buyouts

“Our strategy over the last three years, to be active sellers and highly selective buyers, has delivered strong performance. We now face very different market conditions. I believe that the strength of our model, our network and our portfolio will enable us to deal well with both the challenges and opportunities that will arise.”

Gross portfolio return on opening value

57%

Gross portfolio return

£731m

Long-term performance

New investments made in the financial years to 31 March

Vintage year	Total investment £m	Return flow £m	Value remaining £m	IRR to 31 March 2008	IRR to 31 March 2007
2008	606	8	640	n/a	n/a
2007	497	122	543	35%	9%
2006	470	585	488	57%	47%
2005	340	805	138	62%	54%
2004	303	523	100	37%	30%
2003	268	663	43	50%	50%
2002	186	441	4	61%	61%

Returns from Buyouts (£m)

year to 31 March	2008	2007
Realised profits over value on the disposal of investments	370	538
Unrealised profits on the revaluation of investments	245	123
Portfolio income	116	127
Gross portfolio return	731	788
Fees receivable from external funds	39	33

Business activity – investment and divestment (£m)

year to 31 March	2008	2007
Realisation proceeds	858	1,341
Investment	(788)	(498)
Net divestment	70	843

Gross portfolio return by year (%)

year to 31 March	Return (%)
04	27
05	20
06	29
07	54
08	57

Business model

The Buyouts business line targets cash-to-cash IRR returns of 20% through the cycle and is focused on leading or co-leading mid-market transactions, primarily across Europe, of typically up to around €1 billion in value.

Investments are made through Limited Partnership private equity fund vehicles (currently Eurofund V), which are managed by 3i (see Fund management section opposite). Returns from individual investments are achieved through a mix of capital realisations upon exit, returns of capital and income. Returns to 3i Group are enhanced through fees and carried interest from these funds.

A core element of the business model is that our team of over 100 investment professionals operates as one team with full economic alignment. This enables us to match resources to opportunities on a “best team for the job” basis, based on sector, operational and deal execution experience.

Strategy

The strategy is to apply sector and operational expertise to a premium origination network in order to find, pursue and execute investments in which we can create value. Investment decisions are made on a partnership basis, which provides the ability to benchmark opportunities to select the best 10 to 15 investments to make in each year.

Working with management, we create a bespoke value creation plan for each investment, focused on growing earnings, improving operational efficiency and strategic value, leveraging 3i's network, knowledge and expertise to maximum effect. An illustration of the range of business transformation possible through this approach can be seen from the case studies on pages 14 and 15.

In the last three years, we have driven realisation activity across the portfolio, taking full advantage of buoyant exit markets and continued to invest in high-quality businesses throughout our markets. In the three years ended 31 March 2008, £3,076 million was realised from the Buyouts portfolio and £1,737 million was invested (£4,948 million of realisation proceeds and £2,796 million invested including external funds).



Building on the Group's growing network and reputation in Asia, a Buyouts team presence was established in the region during the year.

Utilising the expertise of our in-house banking team, a debt management capability was established in October 2007 to capitalise on the opportunity to buy high-quality debt at a discount. An €800 million debt warehouse facility has been established in which 3i has committed €160 million on a first loss basis and which is separate from Eurofund V.

As at 31 March 2008, the debt warehouse had invested €275 million of which the 3i commitment was €55 million (£40 million). The diversity and credit-worthiness of the portfolio remains strong. However, given market volatility, the short-term mark-to-market loss on the debt warehouse was €15 million (£12 million) and is included in the gross portfolio return for Buyouts.

Market

The key features of the market during the year were the influence of the more difficult financing environment on the availability of debt and subsequent slow down for the market for mergers and acquisitions.

The impact on the private equity industry as a whole has been most pronounced in the large leveraged buyout ("LBO") market in the US and in Europe, where new LBO investment activity has come to a virtual standstill because of the lack of availability of suitably-sized debt packages. According to unquote, the number of European buyouts with an enterprise value of over €1 billion fell by 42% from 24 in the first half of 2007 to 14 in the second half of the calendar year.

In the European mid-market, which is where 3i operates, debt has remained available for new investments, albeit on terms and conditions more reflective of the market in 2004 and 2005 than in 2007. Data from unquote, shows that the number of European transactions with an enterprise value between €25 million and €1 billion were down, but only by 4%, from 294 in the first half of 2007 to 282 in the second half of the calendar year.

3i has been advantaged in these market conditions because of the depth and breadth of its international network of banking relationships and the capability of its well-established in-house banking team. We continue to see good opportunities to invest.

Investment and realisations

During the first half of the year we continued to actively sell into favourable markets, realising proceeds of £540 million. However, as anticipated, realisation levels slowed during the second half of the year and realisations for the 12 months to 31 March 2008 were £858 million (2007: £1,341 million).

The largest realisation during the year was the sale of Nordic-based facilities management business, Coor Service Management, in December, which generated proceeds of £158 million.

Investment levels were higher at £788 million (2007: £498 million), due to an increase in the average size of investment to £55 million (2007: £41 million). During the year, 11 new investments were completed (2007: 12) in six different countries and five different sectors.

The case studies on pages 14 and 15 include our largest new investments and realisations.

Gross portfolio return

The Buyouts business generated a gross portfolio return of £731 million (2007: £788 million), a 57% return over opening portfolio value (2007: 54%). Consistent with the good level of realisation proceeds during the year, realised profits upon exit at £370 million (2007: £538 million) accounted for over 50% of the gross portfolio return.

Unrealised profits during the year of £245 million included assets valued on an imminent sales basis of £75 million. Agreement was reached in March 2008 to sell Giochi Preziosi, one of the world's leading toy businesses, resulting in an uplift to opening value of £75 million. Giochi Preziosi is profiled as a case study on page 15.

Portfolio health

Portfolio health remains satisfactory and in line with expectations. Our historic loss rates have been extremely low. However, we anticipate a more challenging environment for the portfolio over the next 12 months. The realised loss rate since 2001 was 1.8% at 31 March 2008 (2007: 1.1%). The level of provisions for the period was 3.8% of total investment cost (2007: 4.2%). As part of the year-end valuations process, a specific review of assets acquired in the last 12 months was conducted with regard to debt, entry multiples and performance. Of the 11 new investments made, provisions have been taken against one, totalling £22 million.

Fund management

Eurofund V had invested 40% of commitments at 31 March 2008. Eurofund IV, which was raised in 2003, has performed well compared to latest available industry benchmark data. The fund has already returned 131% of its drawn commitments, has generated a 3.3 times gross money multiple on realised investment and has a remaining portfolio valued at 57% of drawn commitments.

During the year, fund management fees and carried interest receivable amounted to £99 million (2007: £114 million).

Table 12 on page 36 contains a schedule of 3i's managed funds and provides details on when each fund was raised, its size and the extent of 3i's commitment as well as the amount invested by the fund at 31 March 2008. A further analysis of the source of funds by geography and type of investor is provided on page 36.

Long-term performance

The vintage IRRs for 2002 to 2007 are all above our "through-the-cycle" targeted IRR return of 20%. The 2002 to 2006 vintages have now returned in excess of the original cost and, in the case of the 2002 and 2003 vintages, more than twice the original cost has been returned to date.

Jonathan Russell Managing Partner

Business review Buyouts continued

Case studies



Global Garden Products

New investment
Location: Italy
Sector: Consumer
Website: www.ggp-group.com

First investment

3i's Eurofund V invested €260m in December 2007 to support the buyout, growth and development of Global Garden Products (GGP).

Nature of business

GGP is Europe's leading manufacturer of powered garden equipment, including lawnmowers, ride-on tractors and handheld equipment.

Results to 31 August	2007 (audited) €m
Sales	547
EBITDA	84
Net assets	207

Current trading

Sales and EBITDA in the current financial year to date are performing ahead of the previous year's results for the same period.

Developments since 3i invested

The board of GGP has been strengthened through 3i's introduction of Paolo Antonietti as Chairman. 3i is also supporting GGP's plans for growing the business, particularly in new geographies. In January 2008, GGP announced the acquisition of Alpina Italia Spa, a company with a turnover of around €17m and the main distributor of GGP's Alpina brand in Italy.

3i Group plc's investment	March 2008 £m	March 2007 £m
Cost		
Equity and loan	104	n/a
Valuation (cost basis)		
Equity and loan	116	n/a
Equity interest	34%	n/a
Income in the year	3	n/a

Inspicio

New investment
Location: UK
Sector: Business services
Website: www.inspiciopl.com

First investment

3i's Eurofund V invested £164m in February 2008 to enable the public-to-private buyout of Inspicio.

Nature of business

Inspicio is a market-leading global provider of commodity, food and environmental testing and inspection services.

Results to 31 December	2007 (audited) £m
Sales	218
EBITDA	23
Net assets	9*

*Net of goodwill.

Current trading

The business continues to trade well, on the back of increased regulation and strong demand for global commodities.

Developments since 3i invested

3i is applying its sector expertise to support Inspicio's growth strategy. Since announcing an offer for the business in December 2007, Inspicio has made four strategic bolt-on acquisitions, as well as committing to a further capital expenditure plan to accelerate laboratory expansion.

3i Group plc's investment	March 2008 £m	March 2007 £m
Cost		
Equity and loan	91	n/a
Valuation (cost basis)		
Equity and loan	91	n/a
Equity interest	38%	n/a
Income in the year	4	n/a

These case studies consist of the two largest investments and the two largest realisations (by value) completed in the year. We have also included the next largest investment in the portfolio.

For new investments, cost and valuation may differ due to the application of different exchange rates.

Where relevant, EBITDA represents operational EBITDA, excluding non-recurring items.



For further information on 3i's portfolio and cases studies please visit www.3i.com/investment-stories



For a list of our Top ten and 40 other large investments by value, please go to **pages 108 and 109**



Giochi Preziosi

Investment

Location: Italy

Sector: Consumer

Website: www.giochipreziosi.it

First investment

3i's Eurofund IV invested €126m in February 2006 to enable the buyout of Giochi Preziosi.

Nature of business

Giochi Preziosi is one of the world's leading toy businesses.

Results to 30 June

	2007 (audited) €m
Sales	723
EBITDA	79
Net assets	205

Current trading

Giochi Preziosi has continued to improve its sales and profitability performance over the last year, building on its position as the market leader in Italy with around one quarter of market share.

Developments since 3i invested

3i has helped Giochi Preziosi make a number of senior appointments since investment through its global network. The sale and leaseback of the properties of Giochi Preziosi was also driven by 3i's value plan, and returned a cash inflow of €73m to enable the company to repay some of its borrowings. The number of employees of Giochi Preziosi has increased from 1,470 in 2004 to 1,717 in 2007.

In March 2008, an agreement was reached (subject to regulatory approval and a material adverse change clause) to sell Giochi Preziosi. This transaction would return €290m to 3i and investors in Eurofund IV, representing a money multiple of 2.3 times and a 45% IRR.

3i Group plc's investment	March 2008 €m	March 2007 €m
Cost		
Equity and loan	63	63
Directors' valuation (imminent sale/cost basis)		
Equity and loan	151	63
Equity interest	38%	38%
Income in the year	0	0



Care Principles

Realisation

Location: UK

Sector: Healthcare

Website: www.careprinciples.com

First investment

3i's Eurofund IV invested £54m in March 2005 to enable the management buyout of Care Principles. 3i Group plc held a minority position in the company since 1997.

Nature of business

Care Principles provides specialist assessment, treatment and rehabilitation for adults with learning difficulties, personality disorders and autistic spectrum disorders.

Results to 30 April

	2006 (audited) £m
(14 month period)	
Sales	69
EBITDA	14
Net assets	44

Developments since 3i invested

3i used its sector knowledge and experience in Healthcare to assist in the development of Care Principles. We introduced Paul Preston as CEO, and Nick Irens, formerly of another successful 3i buyout Westminster Healthcare, as Chairman. In 2005 3i helped Care Principles acquire Ermine Care, a provider of community-based specialist services. The company performed strongly and ahead of plan, and in July 2006 Care Principles was re-capitalised, returning £32m to 3i and Eurofund IV investors.

In July 2007, Care Principles was sold to Three Delta LLP for £275m, generating a 3.5 times money multiple for 3i and investors in Eurofund IV. Over 10 years, Care Principles has evolved from a start-up operation to a company with over 1,400 employees.

3i Group plc's return on investment	March 2008 £m	March 2007 £m
Cost		
Equity and loan	n/a	20
Realised value		
Equity and loan	111	23
Unrealised value		
Equity and loan	n/a	44
Equity interest	0%	43%
Income in the year	1	4



Coor Services Management

Realisation

Location: Sweden

Sector: Business services

Website: www.coor.com

First investment

3i's Eurofund IV invested €58m in December 2004 to enable the €131m buyout of Coor from Skanska.

Nature of business

Coor is a provider of Total Facilities Management in the Nordic region, with services including workplace support, property support, telephony and security and production support.

Results to 31 December

	2006 (audited) SEKm
Sales	3,745
EBITDA	309
Net assets	241

Developments since 3i invested

3i's network has assisted Coor in winning a number of significant contracts. The company has delivered on its plan to become the Nordic region market leader through organic growth and the €56m purchase of Celero from Volvo in 2005, which increased sales by more than 60%. During the three years of 3i's investment, the company's staff numbers grew from 1,800 to 3,700.

In December 2007, Coor was sold to Cinven, returning €370m to 3i and investors in Eurofund IV. This represents a 6.3 times money multiple and an IRR of 82% over the investment period.

3i Group plc's return on investment	March 2008 €m	March 2007 €m
Cost		
Equity and loan	n/a	30
Realised value		
Equity and loan	158	0
Unrealised value		
Equity and loan	n/a	72
Equity interest	0%	38%
Income in the year	2	2

Business review Growth Capital

“A year of considerable development for our business on so many fronts, yet we still have much to do to achieve our full potential. The current environment, although presenting some challenges, increases the attractions of our offering to world-class growing companies and entrepreneurs.”

Gross portfolio return on opening value

21%

Gross portfolio return

£302m

Long-term performance

New investments made in the financial years to 31 March

Vintage year	Total investment £m	Return flow £m	Value remaining £m	IRR to 31 March 2008	IRR to 31 March 2007
2008	939	1	1,009	n/a	n/a
2007	460	31	536	17%	(2)%
2006	414	350	457	43%	35%
2005	182	190	124	31%	35%
2004	293	474	25	26%	25%
2003	222	375	59	25%	25%
2002	496	642	95	12%	12%

Returns from Growth Capital (£m)

year to 31 March	2008	2007
Realised profits over value on the disposal of investments	75	235
Unrealised profits on the revaluation of investments	160	269
Portfolio income	67	65
Gross portfolio return	302	569
Fees receivable from external funds	2	3

Business activity – investment and divestment (£m)

year to 31 March	2008	2007
Realisation proceeds	503	691
Investment	(990)	(482)
Net (investment)/divestment	(487)	209

Gross portfolio return by year (%)

year to 31 March

04	25
05	23
06	26
07	48
08	21

Business model

The Growth Capital business operates across Europe, Asia and the US with over 100 investment professionals and targets gross cash-to-cash IRRs of 20% through the cycle.

These returns are generated from minority equity investments, funded from 3i's balance sheet, to support the growth of sizeable businesses organically or through acquisition. Investments are typically in companies with relatively low leverage.

As the strength of 3i's international offering has grown, so has the average size of the companies that the Growth Capital team invest in. In the year to 31 March 2004, the Growth Capital business line invested £319 million in 34 businesses, with an average size of investment of £7 million. In the year to 31 March 2008, this had grown to £990 million in 27 new portfolio companies, an average size of new investment of £37 million. These include five investments totalling £26 million made through our partnership with 3TS in central and eastern Europe.

The team operates as a global partnership, originating systematically and investing selectively with the aim of building a portfolio which is diversified by sector, geography, type of investment and size of company.

3i's investment professionals engage in active partnership with the companies in which they invest through aligning interests with other shareholders and joining the board. They provide sector expertise together with strategic, operational and financial insights.

During the year, the decision was taken to form a new Technology sector team within the Growth Capital business line, capitalising on 3i's later-stage technology and healthcare investing activity. This team will comprise investors who will transfer from 3i's Venture Capital business line.



Strategy

Our strategy has been to build our geographic presence, improve effectiveness through increasing the average size of investment and to capitalise on 3i's competitive advantage through our international presence in the mid market. Our aim is to be the private equity firm of choice for world-class growing companies and entrepreneurs.

Investments are sourced, executed and managed using a "best team for the job" approach, on a global basis. 3i's geographic, sector and Business Leaders Network provide market access and insight. The development of our sector approach, combined with the strength of our international network and resources, especially in Asia and the US, have increased this access. Over the last few years, approximately half of our deals have been sourced directly. 3i's track record and experience of managing relationships with company owners for over 60 years supports the conversion of opportunities into investments.

Market

Comprehensive market data is difficult to access, but our own analysis is that €28 billion was invested world-wide in 2007, a 38% increase on 2006. Market growth has been particularly strong in Asia, where growth capital has been the driving factor in the growth of private equity as an asset class.

The market is becoming more competitive in all the regions in which we operate. In Europe, we are seeing large buyout firms turning their attention to growth capital and some direct activity from hedge funds and mezzanine players. In Asia, the market continues to see European and US entrants as well as active IPO markets. The US market remains the most mature, with a number of dedicated and experienced growth capital providers in direct competition with 3i. We believe that with our dedicated Growth Capital teams, geographic coverage and investment style, we remain well positioned competitively.

The upheaval in capital markets has provided a further impetus to market activity, with companies and investors alike focusing on equity funding rather than debt.

Investment and realisations

Investment during the period doubled to £990 million (2007: £482 million) in approximately the same number of companies as last year. This reflected the geographic expansion in recent years and an increase in the average size of new investment to £37 million (2007: £26 million). The US business completed four investments during the period and invested £243 million (2007: £nil). The largest investments during the period were UK-based oil and gas producer, Venture Production plc (£110 million) and US healthcare business, Quintiles International (£100 million).

We continued to see good opportunities in Asia. However, the prices of assets remained high through the year. We followed a strategy of selective investment while focusing on delivering value from the portfolio.

Realisations during the year were lower at £503 million (2007: £691 million), reflecting the influence of a less mature portfolio and market conditions in the second half of the year. Some 70% of the portfolio was less than three years old at 31 March 2008 (2007: 65%).

The two largest realisations were Hayley Conference Centres in the UK (£72 million proceeds) and Clínica Baviera in Spain (£63 million proceeds), both of which delivered over 2.5 times our original cost in less than three years.

The case studies on pages 18 and 19 include our largest new investments and realisations.

Gross portfolio return

The Growth Capital business generated a gross portfolio return of £302 million (2007: £569 million), which represents a 21% return (2007: 48%) over the opening portfolio, in line with our through-the-cycle target, but below the exceptional level generated last year.

Unrealised profits of £160 million accounted for over 50% of the return in the period. The Asia business generated unrealised profits of £143 million as a result of a number of first-time uplifts and IPOs in the period. Indian investment Mundra Ports listed on the Mumbai stock exchange in November 2007, generating an uplift of £24 million at 31 March 2008 over opening value. An uplift of £47 million was also taken on CDH China Fund.

Lower levels of realisations in the period meant that realised profits were lower at £75 million (2007: £235 million). In part, this was also because Hayley Conference Centres and Clínica Baviera, which were realised early in the first half of the year, were valued on an imminent sales basis at 31 March 2007.

Portfolio health

Provisions in the year of £26 million were above last year (£6 million) but remain low on a historic basis. As at 31 March 2008, 93% of our investments were classified as healthy, against a three-year rolling average of 89% (2007: 92% and 81%). No provisions have been made against assets acquired in the last 12 months.

Long-term performance

The long-term performance table shows continued good progress against the 20% target through-the-cycle IRR, especially from more recent vintages. The 2005 and 2006 vintages, in particular, have had substantial early-return flow and value growth.

Michael Queen Managing Partner Growth Capital until 31 March 2008 – pictured left

Guy Zarzavatdian Managing Partner Growth Capital (from 1 April 2008) and Managing Partner Growth Capital Europe until 31 March 2008 – pictured right

Business review Growth Capital continued

Case studies



Quintiles

New investment

Location: US

Sector: Healthcare

Website: www.quintiles.com

First investment

3i and associated limited partners invested \$429m for a combined 15% minority stake in Quintiles in January 2008. This was to support the company's continued growth as part of a recapitalisation of the company.

Nature of business

Quintiles is the market leader in providing outsourced product development and commercialisation solutions and services to the pharmaceutical and biotech industries. Quintiles has played a role in developing each of the world's top 30 best-selling drugs and nine of the top 10 best-selling biotech products.

Results to 31 December

	2006 (audited) \$m
Sales	1,921
EBITDA	243
Net assets	(448)

Current trading

Quintiles has performed to plan since 3i invested in January 2008.

Developments since 3i invested

3i is actively involved in supporting Quintiles' growth, utilising its strong global network and Healthcare sector expertise, as well as long-standing relationships with major pharmaceutical and biotech firms.

3i Group plc's investment

	March 2008 £m	March 2007 £m
Cost		
Equity and loan	100	n/a
Valuation (cost basis)		
Equity and loan	101	n/a
Equity interest	7%	n/a
Income in the year	3	n/a

Venture Production plc

New investment

Location: UK

Sector: Oil, gas and power

Website: www.venture-production.com

First investment

3i initially backed Venture Production in 1997 before its IPO and divested in 2002. Since receiving a minority stake as consideration on the sale of CH4 to Venture Production in 2006, 3i invested a total of £110m in Venture Production plc during August 2007. The aim is to support development in the UK and Netherlands sectors of the North Sea.

Nature of business

Venture Production is a UK North Sea oil and gas producer, focusing on development and enhancement of discovered and producing oil and gas fields.

Results to 31 December

	2007 (audited) £m
Sales	358
EBITDA	267
Net assets	281

Current trading

During 2007, the company continued the development of its North Sea asset base, participating in the drilling of 11 new wells and bringing two new fields on stream.

Developments since 3i invested

Since the start of 2008, the company has announced seven acquisitions of which six have already been completed. These include the company's first add-on deal following its entry into the Dutch sector in 2006 and the acquisition of WHAM Energy plc, an AIM listed company, for £14m. Venture Production's debt facilities have expanded to £585m, giving a strong base to consolidate the company's position as a leading independent oil and gas company in the North Sea.

3i Group plc's investment

	March 2008 £m	March 2007 £m
Cost		
Equity and loan	111	0
Valuation (quoted basis)		
Equity and loan	127	24
Equity interest	23%	3%
Income in the year	3	0

These case studies consist of the two largest investments and the two largest realisations (by value) completed in the year. We have also included the next largest investment in the portfolio, which is also a new investment.

For new investments, cost and valuation may differ due to the application of different exchange rates.

Where relevant, EBITDA represents operational EBITDA, excluding non-recurring items.



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For a list of our Top ten and 40 other large investments by value, please go to **pages 108 and 109**



DNA Oy

New investment

Location: Nordic

Sector: Communications

Website: www.dnaoy.fi

First investment

3i invested €142m for a 13% stake in DNA Oy (formerly known as Finnet Oy) in May 2007, to support the expansion of DNA's product offerings.

Nature of business

DNA is an integrated telecommunications and cable TV network and services operator, operating in Finland, providing a full range of services.

Results to 31 December	2007
(Pro forma including businesses acquired in 2007)	(unaudited) €m
Sales	639
EBITDA	152
Net assets	299

Current trading

Currently the fastest growing mobile operator in Finland, DNA is building on its significant asset base and well-established reputation. The integration of the fixed-line businesses is being implemented as planned.

Developments since 3i invested

The focus since 3i invested has been on the integration of the local fixed-line networks and operations. This will enable DNA to provide broadband, voice telephony, cable television and IT services in addition to its current mobile offerings. DNA's market position has strengthened and the company now has a strong market position in wireless broadband provision.

3i Group plc's investment	March 2008	March 2007
	£m	£m
Cost		
Equity	97	n/a
Valuation (cost basis)		
Equity	113	n/a
Equity interest	13%	n/a
Income in the year	0	n/a

Clínica Baviera

Realisation

Location: Spain

Sector: Healthcare

Website: www.clinicabaviera.com

First investment

3i acquired a 32% interest in Clínica Baviera in May 2005 for €40m in order to enable both the organic and acquisitive growth of the business.

Nature of business

At the time of realisation, Clínica Baviera was the leading provider of refractive surgery and other ophthalmic treatments in Spain.

Results to 30 November	2006
	(audited) €m
Sales	59
EBITDA	21
Net assets	19

Developments since 3i invested

3i utilised its considerable Healthcare sector knowledge and experience to assist in the development of Clínica Baviera. During the period of 3i's investment, annual turnover rose from €43m to €59m, new clinics were opened and Clínica Londres was successfully acquired. Employment grew from 273 staff in late 2005 to 440 staff in early 2007. In April 2007, the company achieved a successful IPO on the Madrid Stock Exchange, generating proceeds for 3i of €96m. This represents a cash multiple of 2.6 times and an IRR of 62%.

3i Group plc's return on investment	March 2008	March 2007
	£m	£m
Cost		
Equity and loan	n/a	27
Realised value		
Equity and loan	63	0
Unrealised value		
Equity and loan	n/a	62
Equity interest	0%	32%
Income in the year	0	3

Hayley Conference Centres

Realisation

Location: UK

Sector: Leisure

Website: www.hayley-conf.co.uk

First investment

In September 2005, 3i acquired a 46% stake in Hayley for £40m to support the company's plans for UK and international expansion.

Nature of business

At the time of realisation, Hayley was the leading provider of premium dedicated conference venues in the UK.

Results to 31 March	2006
	(audited) £m
Sales	42
EBITDA	14
Net assets	72

Developments since 3i invested

At sale, the company had eight UK sites and one under construction in France. Hayley was voted number 70 in the Sunday Times 100 Best Companies to Work For in 2006. Employee numbers rose from 754 in September 2005 to 833 in May 2007. The reputation of the business as a high-quality service provider led to the successful sale of the company to Principal Hotels in May 2007. This generated proceeds for 3i of £72m which, in addition to £46m re-gearing proceeds in November 2006, represents a cash multiple of 2.9 times and an IRR of 120%.

3i Group plc's return on investment	March 2008	March 2007
	£m	£m
Cost		
Equity and loan	n/a	1
Realised value		
Equity and loan	72	46
Unrealised value		
Equity and loan	n/a	66
Equity interest	0%	46%
Income in the year	0	2

Business review Infrastructure

“The progress of 3i Infrastructure Limited, the launch of our Indian infrastructure fund and the development of our team and market position have been good indicators of progress. The outlook for infrastructure remains positive.”

Returns from Infrastructure (£m)

year to 31 March	2008	2007
Realised profits over value on the disposal of investments	6	(15)
Unrealised profits on the revaluation of investments	43	3
Portfolio income	18	27
Gross portfolio return	67	15
Fees receivable from external funds	18	–

Assets under management (£m)

as at 31 March	2008	2007
Own balance sheet	501	469
Managed funds	348	–
Advised funds	364	385*
	1,213	854

*3i Infrastructure Limited was launched in March 2007. The value of external funds was based on the share price at 31 March 2007. The Group now uses the latest published net asset value rather than the market price to measure external assets under management.

Business model

3i generates a blended return through its own balance sheet investment in infrastructure assets and through advisory, management and performance fees generated from 3i Infrastructure Limited and the 3i India Infrastructure Fund. The assets under management table shows the composition of assets advised and under management. At this early phase of development, fees receivable from external funds of £18 million (2007: £nil) are already making a good contribution to the Group return.

3i defines infrastructure investments as investments in asset-intensive businesses which provide essential services such as transport, utilities and social infrastructure under long-term contracts. These include a range of asset maturities, from mature, typically high-yielding assets to early-stage development projects, which would generally provide a lower yield, but higher potential for capital growth. This range of maturities is intended to generate returns through a combination of capital growth and income yield.

The team comprises 23 investment professionals operating from London, New York, Frankfurt and Mumbai, mirroring the geographic focus of investment in the UK, the US, continental Europe and India.

3i Infrastructure Limited

3i holds a 46.2% investment in 3i Infrastructure Limited, which was listed on the London Stock Exchange in March 2007 and is now a FTSE 250 company. 3i Group plc, through 3i Investments plc, a wholly-owned subsidiary, acts as Investment Adviser to 3i Infrastructure Limited and in return receives an advisory fee of 1.5% of invested capital and an annual performance fee of 20% of the growth in net asset value, before distributions, over an 8% hurdle, calculated each year.



3i Infrastructure Limited is a long-term investor with a global investment mandate to focus on three key sub-sectors: transport; utilities; and social infrastructure. In addition to its direct investments in infrastructure assets, during the year, 3i Infrastructure Limited committed to invest US\$250 million in the 3i India Infrastructure Fund.

3i Infrastructure Limited has its own dedicated investor relations website (www.3i-infrastructure.com). Results for the period from incorporation on 16 January 2007 to 31 March 2008 are due to be published by 3i Infrastructure Limited in June 2008.

3i India Infrastructure Fund

3i's growing presence and reputation in India, and in the infrastructure sector, created the opportunity for a strategic partnership to be signed with the India Infrastructure Finance Company Limited in April 2007. With this in place, 3i set out to raise a US\$1.0 billion fund, with the mandate to invest in projects across the power, ports, airports and road sub-sectors in India.

Subsequent to the year end, on 16 April, 3i announced a final closing of the 3i India Infrastructure Fund at US\$1.2 billion, exceeding its US\$1.0 billion target. 3i and 3i Infrastructure Limited each committed US\$250 million to this fund during the year. 3i will receive a management fee of 2.0% based on investment committed to the fund, with the exception of 3i Infrastructure Limited, which pays advisory fees to 3i.

During the year, the fund made two investments in Adani Power Private Limited (US\$227 million) and Soma Enterprise Limited (US\$101 million).

Strategy

The Infrastructure team, which advises 3i Infrastructure Limited and manages the 3i India Infrastructure Fund, focuses on delivering the investment strategy of its advised and managed funds and aims to use 3i's network, track record and brand to build a first-class, global infrastructure investment business which is highly respected in the relevant local markets.

The team also seeks to be socially conscious in all of its activities and conforms to 3i's social and environmental policies, procedures and standards.

Market

The market for infrastructure investment remains attractive. We continue to see significant opportunities for investment, in particular in Europe, India and North America. The asset class has proven to be attractive in current markets, due to its defensive characteristics.

Gross portfolio return and fee income

The Infrastructure portfolio generated a gross portfolio return of £67 million, 14% on opening portfolio value during the period (2007: £15 million, 16%). Unrealised profits of £43 million (2007: £3 million) and portfolio income of £18 million (2007: £27 million) were the key drivers of this return. An increase in the value of 3i's holding in 3i Infrastructure Limited contributed £29 million to this, as the value of the shares rose from 100.75p on 31 March 2007 to 110p at 31 March 2008 and at the same date the warrants issued at 3i Infrastructure Limited's IPO had a price of 17p (31 March 2007: 19p). Portfolio income mainly comprises dividend income from 3i Infrastructure Limited and from Anglian Water Group Limited ("AWG"), in which 3i retains a direct holding.

Fee income included £12 million from advising and providing other services to 3i Infrastructure Limited and £5 million from managing the 3i India Infrastructure Fund.

Investment and realisations

As the Infrastructure business line's investment is mainly made through 3i Infrastructure Limited and the 3i India Infrastructure Fund, investment by the Group in the year was £38 million (2007: £380 million). Investment in 2007 was substantially higher, due to the Group's £325 million initial investment in 3i Infrastructure Limited, comprising a transfer of seed assets (£234 million) and cash. The largest investment during the current financial year (£36 million) was attributable to drawdowns by the 3i India Infrastructure Fund to invest in Adani Power Private Limited, which is developing a portfolio of power plants across India, and Soma Enterprise Limited, an infrastructure construction, operation and management firm.

Realisation proceeds of £57 million include the partial divestment of AWG (£25 million) and the sale of the Alma Mater Fund, active in the construction and management of university accommodation, to 3i Infrastructure Limited (£25 million).

Portfolio

The total value of 3i's direct Infrastructure portfolio is £501 million. The investment in 3i Infrastructure Limited was valued at £363 million. Four additional investments are held by the Group, including a £98 million investment in AWG.

All investments made since the launch of the Infrastructure business in 2006 are classified as healthy.

Michael Queen Managing Partner

Business review Quoted Private Equity (“QPE”)

“Our investment strategy has been cautious in the early phase of our development. However, market conditions have increased our opportunities and as markets stabilise 3i Quoted Private Equity Limited is well placed to invest.”

Returns from QPE (£m) year to 31 March	2008	2007
Realised profits over value on the disposal of investments	–	–
Unrealised (losses)/profits on the revaluation of investments	(42)	6
Portfolio income	–	–
Gross portfolio return	(42)	6
Fees receivable from external funds	1	–

Assets under management (£m) as at 31 March	2008	2007
Own balance sheet	142	20
Third-party funds	269	–
	411	20

Business model

3i's Quoted Private Equity (“QPE”) business line brings capital and value creation techniques to public companies without taking them private. Investments are made by 3i Quoted Private Equity Limited, a company which listed on the London Stock Exchange in June 2007 at a capitalisation of £400 million. 3i Quoted Private Equity Limited has its own dedicated investor relations website (www.3iqpe.com) and is scheduled to announce its annual results for the year to 31 March 2008 later in May 2008.

3i acts as Investment Adviser to 3i Quoted Private Equity Limited. The QPE team comprises an experienced team of 11 investment professionals, one of whom will normally join the board of the portfolio company. The team identifies investments in the small and mid-cap market across continental Europe and the UK, with a view to 3i Quoted Private Equity Limited holding these investments for a period of years. These are typically companies which are under-researched, suffer from low liquidity in their shares and where there is an opportunity to unlock and enable significant strategic development. 3i Quoted Private Equity Limited's approach is to leverage 3i's international network and resources and apply a private equity mindset.



3i's returns are generated through a combination of capital appreciation from its 45% holding in 3i Quoted Private Equity Limited and advisory and performance fees received from the listed fund for acting as an investment adviser.

An advisory fee of 2% is payable to 3i Group based on the gross investment value of 3i Quoted Private Equity Limited less cash uninvested. A performance fee becomes payable when the net asset value per share at the end of the relevant performance period exceeds an 8% performance trigger, compounding annually, with the performance fee payable being 20% of the entire growth in net asset value.

Strategy

The advisory strategy is to identify a limited number of investments in the UK and continental Europe through 3i's international network and sector teams. Detailed value creation plans are formulated and agreed in partnership with management for each situation.

Elements of the value creation plan include providing capital to accelerate managements' growth plans for their businesses; improving governance; introducing management incentives to align managements' interests with growing value for shareholders; and optimising the capital structure of the businesses. In summary, the QPE team engages with ambitious management teams to enhance shareholder value through strategic, operational or financial improvements to the businesses in which 3i Quoted Private Equity Limited invests.

Market

The turbulence in capital markets has exacerbated the challenges for smaller public companies throughout Europe, potentially increasing the size of the market opportunity for 3i Quoted Private Equity Limited since its listing. 3i Quoted Private Equity Limited has now invested approximately 26% of the initial capital raised and has ample capital to invest as market opportunities arise.

Progress to date

3i Quoted Private Equity Limited was listed on the London Stock Exchange in June 2007 with a market capitalisation of £400 million. The Group made a £181 million investment in this company to acquire a 45% holding in the company. On listing, 3i Group plc also transferred two investments into 3i Quoted Private Equity Limited, generating proceeds of £18 million.

Since listing, 3i Quoted Private Equity Limited has announced two new investments. On 26 February 2008, it announced that it had made a £30 million investment in Jelf Group plc, an insurance broker and wealth adviser based in the UK employing over 700 staff with more than 20 offices across England and Wales. On 13 March, it announced a US\$53 million purchase of shares in Phibro Animal Health Corporation, a diversified global manufacturer and marketer of a broad range of animal health and nutrition products. Subsequent to the year end, on 4 April, 3i Quoted Private Equity Limited announced it had increased this investment to US\$93 million, following Phibro's listing on AIM.

The gross portfolio return in this initial period following 3i Quoted Private Equity Limited's listing was £(42) million. This was principally due to the lower share price at 31 March 2008 (79p), which accounted for £40 million of this. During the year, an advisory fee of £1 million was generated.

The net asset value of 3i Quoted Private Equity Limited at 31 March 2008 was 102.2p per share (unaudited), a 4.2% increase over proceeds raised at flotation (less initial expenses) of 98.1p per share.

In summary, this has been a year of considerable progress for QPE. Our team is now in place, 3i Quoted Private Equity Limited has been launched and its first investments have been made. I look forward to reporting more progress.

Bruce Carnegie-Brown *Managing Partner*

Business review Venture Capital

“The transition from early to late-stage investing is now substantially complete.”

Gross portfolio return on opening value

(2)%

Gross portfolio return

£(17)m

Long-term performance

New investments made in the financial years to 31 March

Vintage year	Total investment £m	Return flow £m	Value remaining £m	IRR to 31 March 2008	IRR to 31 March 2007
2008	59	0	72	n/a	n/a
2007	167	8	139	(11)%	(2)%
2006	103	12	99	4%	5%
2005	93	21	84	4%	(1)%
2004	141	91	89	10%	14%
2003	122	31	34	(17)%	(19)%
2002	339	141	86	(8)%	(12)%

Returns from Venture Capital (£m)

year to 31 March

	2008	2007
Realised profits over value on the disposal of investments	65	12
Unrealised (losses) on the revaluation of investments	(88)	(61)
Portfolio income	6	3
Gross portfolio return	(17)	(46)
Fees receivable from external funds	–	1

Business activity – investment and divestment (£m)

year to 31 March

	2008	2007
Realisation proceeds	170	187
Investment	(156)	(200)
Net divestment/(investment)	14	(13)

Gross portfolio return by year (%)

year to 31 March

Year	Gross portfolio return (%)
04	10
05	11
06	17
07	(6)
08	(2)

Business model

The transition from early to late-stage investing, which was driven by the objective to maximise shareholder returns and reduce the volatility inherent with an early-stage investment activity, has now been substantially completed. This increased focus on later stage, where 3i's competitive advantage and international network has more resonance with management teams, also improves the productivity of our teams.

During the year, new early-stage investment accounted for just 4% of total investment (2007: 15%). As the proportion of late-stage technology and healthcare investing has grown and the size of transactions has increased, the level of overlap between the Venture Capital and Growth Capital investing activities became a more regular occurrence. As such, it became evident that the Venture Capital investment activities could benefit, and provide 3i greater market clarity, by being integrated in our global Growth Capital business.

As a consequence, the decision was taken during the year to form new Technology and Healthcare sector teams within the Growth Capital business line, through which all late-stage technology and healthcare investments would be made from 1 April 2008. This team has been drawn predominantly from the Venture Capital business line.

All investments currently managed by the Venture Capital team will be managed by a focused team, the "Venture Portfolio team", who are incentivised through the value that they derive from this portfolio. These investments had a combined value at 31 March 2008 of £738 million. The investment performance and activity of this portfolio will continue to be reported separately and, from 1 April 2008, identified as the Venture Portfolio. In optimising the return from this portfolio, 3i is committed to making further investments in these companies as appropriate.



Market

In 2007, both the US and European Venture Capital markets displayed an increasing focus on sizeable late-stage financings. According to VentureSource, in Europe, late-stage accounted for more than 45% of the overall Venture Capital investment, the highest amount allocated to later stage since 2001. Investment in early and late-stage IT companies remained a key driver of overall Venture Capital investment. IT remains a key driver of change in media, financial services and consumer sectors. While European healthcare venture capital investment in 2007 decreased by 5%, in the US it grew 17%.

According to PricewaterhouseCoopers' 2008 Technology M&A insights, the primary areas for deal activity over the next 12 months are likely to be around continued cross-border consolidation in software and IT services. Climate change and the demand for effective environmentally friendly technology may also stimulate additional mergers and acquisitions activity in 2008.

Gross portfolio return

The Venture Capital portfolio incurred a marginal negative gross portfolio return of (2)% over the opening portfolio value (2007: (6)%).

Realised profits of £65 million were the main contributor to gross portfolio return in the year. An unrealised loss of £(88) million in the period was primarily driven by provisions taken on the portfolio of £79 million and a loss of £27 million on the quoted portfolio.

Investment and realisations

Total realisation proceeds in the period were £170 million (2007: £187 million). The largest realisations in the year were German pharmaceuticals business Doc Morris, which generated a realised profit of £33 million and the sale of Bluelithium to Yahoo inc., which produced realised profits of £10 million.

There were 35 full realisations in the year (2007: 35) which principally came from selling older-vintage assets and an initiative in the early part of the year to reduce the size of the quoted portfolio.

Investment during the year was £156 million, of which only £6 million was invested in new early-stage technology (2007: £29 million). The two largest investments were a £19 million late-stage investment in France-based E-Travel business FastBooking and a further late-stage investment of £13 million in UK-based Healthcare Brands International.

The case studies on pages 26 and 27 include our largest new investments and realisations.

Portfolio health

Portfolio health was slightly worse in the year, with 65% (2007: 69%) of the portfolio by cost classified as healthy, compared to the rolling three year average of 67% (2007: 67%).

Long-term performance

The longer life cycle of these investments and the tendency for the major element of returns to be generated on exit means that it is too early to comment on the performance of the most recent vintages. However, as the drive from 2004 to increase the proportion of late-stage investment in each vintage has taken effect, the vintage IRR performance has shown an encouraging trend.

Jo Taylor Managing Partner

Business review Venture Capital continued

Case studies



Fastbooking

New investment
Location: France
Sector: Internet
Website: www.fastbooking.org

First investment

In October 2007, 3i invested €27m in a late-stage investment to support Fastbooking in growing the business outside of France.

Nature of business

Fastbooking is a leading provider of advanced internet booking systems and marketing services for the hospitality industry, operating in Europe, Asia and North America.

Results to 31 December

	2007 (unaudited) \$m
Sales	17
EBITDA	3
Net assets	n/a

Current trading

Established in 2000, Fastbooking has over 3,500 client hotels world-wide, with over two million hotel room nights booked through its platform during 2007. The company has developed a global range of solutions designed to help hotels world-wide, especially 4 star and above, grow their internet sales and efficiently manage their electronic distribution strategy.

Developments since 3i invested

3i introduced Amal Amar (former CEO of SeLoger.com) to the board and he has been appointed to act as Chairman of Fastbooking. 3i also introduced Guillaume de Marcillac (former CFO of Expedia Corporate Travel) as the new CFO of Fastbooking.

3i Group plc's investment	March 2008 £m	March 2007 £m
Cost		
Equity	19	n/a
Valuation (cost basis)		
Equity	21	n/a
Equity interest	47%	n/a
Income in the year	1	n/a

Healthcare Brands International

New investment (further)
Location: UK
Sector: Healthcare
Website: www.healthcarebrandsinternational.com

First investment

3i first invested £3m in Healthcare Brands International ("HBI") alongside other investors as part of a second-round funding in July 2006. In December 2007, 3i invested a further £13m into HBI to support the company's growth.

Nature of business

HBI acquires, develops, and invests in differentiated healthcare products, primarily in the over-the-counter medicine market.

Results*	2007
Sales	n/a
EBITDA	n/a
Net assets	n/a

Current trading

HBI has been making acquisitions in products and brands in line with its strategy and is expecting trading to be in line with budget forecasts for 2007.

Developments since 3i invested

HBI's first brand, Sambucol, is trading well and is now available selectively across Europe and North America. In December 2007, HBI acquired Scandinavian healthcare company, Antula, with the support of 3i's investment. Antula is a significant over-the-counter healthcare company in the Scandinavian market.

3i Group plc's investment	March 2008 £m	March 2007 £m
Cost		
Equity	16	3
Valuation (cost basis)		
Equity	16	3
Equity interest	17%	17%
Income in the year	0	0

*No published results are available for HBI.

These case studies consist of the two largest investments and the two largest realisations (by value) completed in the year. We have also included the next largest investment in the portfolio.

For new investments, cost and valuation may differ due to the application of different exchange rates.

Where relevant, EBITDA represents operational EBITDA, excluding non recurring items.



For further information on 3i's portfolio and cases studies please visit www.3i.com/investment-stories



For a list of our Top ten and 40 other large investments by value, please go to **pages 108 and 109**



Demand Media

Investment

Location: US

Sector: Internet

Website: www.demandmedia.com

First investment

3i invested \$40m in September 2006 to enable Demand Media to invest in future growth initiatives and acquisitions. A further \$20m was invested in September 2007.

Nature of business

Demand Media is a next-generation media platform company with significant media properties and one of the largest domain portfolios.

Results to 31 December

	2006 (unaudited) \$m
Sales	79
EBITDA	19
Net assets	233

Current trading

Demand Media has continued to grow both revenue and EBITDA. The company has closely tracked its plan, while growing the business both organically and through acquisitions.

Developments since 3i invested

Since 3i invested, Demand Media has released its new media platform. In addition, it has successfully closed and integrated a number of acquisitions. In June 2007, Charles Hilliard, former President and CFO of United Online, was recruited to the position of CFO at Demand.

3i Group plc's investment

	March 2008 £m	March 2007 £m
Cost		
Equity	31	21
Valuation (further/advance)		
Equity	41	20
Equity interest	*	8%
Income in the year	0	0

*Equity interest cannot be disclosed for legal or commercial reasons.

CSR plc

Realisation

Location: UK

Sector: Technology

Website: www.csr.com

First investment

3i invested £7.7m in Cambridge Silicon Radio Ltd ("CSR") over several rounds of funding between 1999 and 2002, after the company was formed as a spin-out from Cambridge Consultants Ltd.

Nature of business

CSR is a leading manufacturer of single-chip Bluetooth wireless devices.

Results to 31 December

	2007 (audited) \$m
Sales	849
EBITDA	185
Net assets	509

Developments since 3i invested

3i assisted in the successful development of CSR from its founding through to its position as a market leader at the point of divestment. This assistance was provided through recruitment of several members of the board, backing further funding rounds and assisting with business negotiations with companies such as Intel Capital and Sony. CSR floated in 2004 and 3i supported the IPO and fund raising on the London Stock Exchange.

Over the course of 3i's investment, CSR returned a total of £75m, representing a 9.8 times money multiple and an IRR of 57%.

3i Group plc's return on investment

	March 2008 £m	March 2007 £m
Cost		
Equity	n/a	1
Realised value		
Equity	20	7
Unrealised value		
Equity	n/a	16
Equity interest	0%	13%
Income in the year	0	0

DocMorris.com

Realisation

Location: Germany

Sector: Technology

Website: www.docmorris.de

First investment

3i initially invested €1m in DocMorris.com when the company was founded in 1999 and has invested a total of €13m over the lifetime of the investment.

Nature of business

DocMorris.com is a mail order company for pharmaceuticals, acting as a fully-authorized pharmacy in accordance with Dutch regulations.

Results to 31 December

	2006 (audited) €m
Sales	172
EBITDA	*
Net assets	26

Developments since 3i invested

From its start up in 1999, DocMorris.com had 850,000 customers, employed 330 staff and was generating annual revenues of €172m at the point of 3i's divestment. The strategic shift to sell pharmaceutical products under the DocMorris brand and to set up a franchise system for stationary pharmacies attracted interest from potential buyers. In June 2007, DocMorris was sold to Cellesio, Europe's largest pharmaceutical distributor. This generated over €60m for 3i, which represents a cash multiple of 5.3 times and an IRR of 59%.

3i Group plc's return on investment

	March 2008 £m	March 2007 £m
Cost		
Equity and loan	n/a	8
Realised value		
Equity and loan	*	n/a
Unrealised value		
Equity and loan	n/a	8
Equity interest	*	*
Income in the year	0	0

*EBITDA, realised value and equity interest for the company cannot be disclosed for legal reasons.

Business review Financial review

This review provides detailed information on our financial performance for the year and the financial position at the end of the year.

Investment activity

Table 1: Investment by business line and geography (£m)

for the year to 31 March

	Continental Europe		UK		Asia		US		Rest of World		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Buyouts	415	326	371	169	–	–	–	–	2	3	788	498
Growth Capital	256	212	357	11	132	258	243	–	2	1	990	482
Infrastructure	–	6	2	374	36	–	–	–	–	–	38	380
QPE	–	–	182	14	–	–	–	–	–	–	182	14
SMI	–	1	6	1	–	–	–	–	–	–	6	2
Venture Capital	36	15	54	81	3	1	60	92	3	11	156	200
Total	707	560	972	650	171	259	303	92	7	15	2,160	1,576

Investment

Consistent with the strategy to grow assets under management and to extend our international reach directly and through investing in funds, investment in the year grew by 37% to £2,160 million (2007: £1,576 million). This included 3i's £181 million investment in 3i Quoted Private Equity Limited, as well as the Group's £36 million initial investment in the 3i India Infrastructure Fund.

The key driver of this increase was a rise in the average size of investment. Excluding the 3i Quoted Private Equity Limited and 3i India Infrastructure Fund investments, the average size grew to £37 million (2007: £26 million). The number of new investments in the period was lower at 47 (2007: 62), principally because of a decrease in the number of early-stage technology investments (2008: 2, 2007: 14).

As can be seen from table 1, Growth Capital accounted for 46% of new investment and Buyouts accounted for 36% of new investment in the year. Although remaining firmly in the mid market, the average size of new buyout investments increased to £55 million (2007: £41 million).

The UK and continental Europe accounted for 78% (2007: 77%) of investment in the period. Investment in the US increased to £303 million (2007: £92 million) as the New York Growth Capital team became established. As a consequence, US investment accounted for 14% of total Group investment during the year (2007: 6%).

After significant increases in 2006 and 2007, investment in Asia was lower at £171 million (2007: £259 million). Investment in India was broadly at the same level at £95 million (2007: £99 million) and included the first drawdowns for 3i India Infrastructure Fund for a total of £36 million. There was continued growth in China at £53 million (2007: £39 million) but investment in South East Asia fell compared to the previous year, which included the £105 million ACR investment.

In addition to the amount invested by 3i directly, a further £1,035 million (2007: £290 million) was invested on behalf of funds advised or managed by 3i.

Table 2: Realisation proceeds by business line and geography (£m)

for the year to 31 March

	Continental Europe		UK		Asia		US		Rest of World		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Buyouts	471	617	387	724	–	–	–	–	–	–	858	1,341
Growth Capital	320	435	166	203	17	53	–	–	–	–	503	691
Infrastructure	6	–	51	5	–	–	–	–	–	–	57	5
QPE	–	–	18	–	–	–	–	–	–	–	18	–
SMI	27	46	109	168	–	–	–	–	–	–	136	214
Venture Capital	70	61	52	69	8	1	40	56	–	–	170	187
Total	894	1,159	783	1,169	25	54	40	56	–	–	1,742	2,438

Realisations

As anticipated, after achieving realisation proceeds of over £2 billion in each of the previous two years, the level of realisations in the year to 31 March 2008, although still strong, was lower at £1,742 million (2007: £2,438 million). Some 28% of the opening portfolio value was sold (2007: 39%) during the period. This lower level was a consequence of a less mature opening portfolio following the realisations of the previous two years. The percentage of the portfolio less than one year old at 31 March 2007 was 36% (2006: 26%, 2005: 17%).

Buyouts was again the largest contributor to realisations, delivering proceeds of £858 million (2007: £1,341 million) with Growth Capital producing £503 million (2007: £691 million) and Venture Capital generating £170 million (2007: £187 million).

UK and continental European investments accounted for 96% of realisations, reflecting the relative maturity of this portfolio compared to Asia and the US.

Despite the more difficult financing environment, the Group has continued to find buyers for good-quality investments. Third and fourth quarter realisations of £429 million and £269 million respectively included the largest realisation for the year, Coor Service Management, which generated proceeds of £158 million and a money multiple of 6.3 times the original 2004 investment.

The nature of realisations changed from the previous year, with 24% (2007: 37%) from trade sales, and 8% (2007: 8%) through refinancing portfolio businesses. Sales to financial buyers, including other private equity firms (sometimes called "secondaries"), accounted for 38% of realisations (2007: 27%). Eight 3i portfolio companies achieved an IPO during the year (2007: 10) and realisations from these and other quoted portfolio companies amounted to £199 million (2007: £240 million).

The SMI portfolio, a portfolio of older, smaller minority investments, generated proceeds of £136 million (2007: £214 million) from 201 investments. In March 2004, 3i announced its strategy to accelerate the realisation of this portfolio. Since then, the total number of investments in the SMI portfolio has been reduced from 1,079 to 92 and £816 million has been realised.

Returns

Total return

Total return for the year to 31 March 2008 was £792 million (2007: £1,075 million) representing 18.6% (2007: 26.8%) over opening shareholders' funds. Over the last five years, the Group has generated an average total return of 20.4%.

Gross portfolio return of £1,041 million (2007: £1,406 million) represents a 23.9% (2007: 34.0%) return over opening portfolio value. At 28% (2007: 23%), a higher percentage of this return has been generated from unrealised profits in the year, reflecting strong earnings growth across the portfolio. First-time uplifts of £154 million (2007: £142 million) included a £68 million contribution from the Asian portfolio. Other significant factors included the valuation of Giochi Preziosi on an imminent sales basis and quoted value movements following IPOs from the Growth Capital and Buyouts portfolios.

Net carried interest payable increased to £92 million (2007: £61 million) due to higher levels of carried interest participation, arising from a greater contribution to this year's return from more recent vintages. Total return was increased by a £158 million gain from the fair value of derivatives, of which the largest contribution, £162 million (2007: £(62) million), was from movements in the fair value of the equity element of the Group's 2008 convertible bonds related mainly to share price movements.

Table 3: Total return

for the year to 31 March

	2008 £m	2007 £m
Realised profits on disposal of investments	523	830
Unrealised profits on revaluation of investments	291	323
Portfolio income	227	253
Gross portfolio return	1,041	1,406
Fees receivable from external funds	60	37
Carried interest receivable	60	81
Carried interest and performance fees payable	(152)	(142)
Operating expenses	(274)	(255)
Net portfolio return	735	1,127
Net interest payable	(16)	(9)
Movements in the fair value of derivatives	158	(29)
Exchange movements	(44)	(31)
Other	(5)	(2)
Profit after tax	828	1,056
Reserve movements (pension, property and currency translation)	(36)	19
Total recognised income and expense ("Total return")	792	1,075

Total return by year (%)

for the year to 31 March

04	19.0
05	15.2
06	22.5
07	26.8
08	18.6

Total return comprises the total recognised income and expense stated as a percentage of opening shareholders' funds.

Table 4: Unrealised profits/(losses) on revaluation of investments

for the year to 31 March

	2008 £m	2007 £m
Earnings multiples	(162)	5
Earnings growth	307	142
First-time uplifts	154	142
Provisions	(188)	(71)
Up rounds	7	15
Uplift to imminent sale	83	139
Other movements on unquoted investments	26	(12)
Quoted portfolio	64	(37)
Total	291	323

Realised profits

Realised profits of £523 million (2007: £830 million) were the largest contributor to gross portfolio return in the year, accounting for 50% (2007: 59%) of the total. The average uplift over opening value for these realisations was 43% (2007: 52%). Despite the level of uplift being below last year's levels, the level is higher compared to historic levels and reflects significant uplifts generated during the first half (48%).

Unrealised value movement

A detailed explanation of each of the different categories of unrealised value movement is contained within the Portfolio valuation section on pages 106 and 107.

Earnings multiples The deterioration of international equity markets in the year has led to a £162 million reduction (2007: £5 million increase) in valuations, due to lower multiples applied to portfolio earnings. At the year end, 28% (2007: 33%) of the Group's portfolio was valued on an earnings basis. Large differentials exist between multiples used to value the

portfolio in Asia, Europe and the US. As a guide to how multiples have moved, the weighted average PE multiple has reduced by 7% from 11.6 to 10.8, and the weighted average EBITDA multiple reduced by 15% from 6.8 to 5.8 year on year. Approximately three quarters of the companies valued on an earnings basis are valued using an EBITDA multiple.

Earnings growth and first-time uplifts Earnings increases within the portfolio contributed £307 million (2007: £142 million) to value growth and a further £154 million (2007: £142 million) of "first-time uplift" on companies valued on an earnings basis for the first time. Earnings have proved resilient despite the global decline in economic conditions.

Provisions Provisions during the year of £188 million include impairments to loans and are ahead of last year's levels (2007: £71 million) following the write-down of several Venture Capital investments, totalling £79 million. Provisions on Buyouts investments totalled £74 million.

Uplift to imminent sale Investments valued on an imminent sale basis totalled £83 million (2007: £139 million). The largest of these was Giochi Preziosi (£75 million).

Quoted portfolio Increased volatility has seen significant value movements in the quoted portfolio, although the net impact has been mitigated by the effect of new IPOs and the appreciation of the share price of 3i Infrastructure Limited. The overall effect has been a £64 million increase in the value of the quoted portfolio. Significant listings during the year included Teleticity (closing value: £83 million), Dockwise (£43 million), Venture Production (£51 million) and Mundra Ports (£53 million).



For further information on Portfolio valuation please go to **page 106**

Table 5: Portfolio income

year to 31 March

	2008 £m	2007 £m
Dividends	56	81
Income from loans and receivables	149	158
Fees receivable	22	14
Portfolio income	227	253
Portfolio income/opening portfolio ("income yield")	5.2%	6.1%

Table 6: Gross portfolio return by business line

for the year to 31 March

	Gross portfolio return		Return as a % of opening portfolio	
	2008 £m	2007 £m	2008 %	2007 %
Buyouts	731	788	57	54
Growth Capital	302	569	21	48
Infrastructure	67	15	14	16
QPE	(42)	6	n/a	n/a
SMI	–	74	–	13
Venture Capital	(17)	(46)	(2)	(6)
Gross portfolio return	1,041	1,406	24	34

Gross portfolio return by year (%)

for the year to 31 March

04	19.0
05	16.7
06	24.4
07	34.0
08	23.9

Gross portfolio return comprises the income and capital return (both realised and unrealised value movement) generated from the portfolio and is expressed as a percentage of opening portfolio value.

Portfolio income

Portfolio income for the year comprised dividend income of £56 million (2007: £81 million), interest receivable from loans of £149 million (2007: £158 million) and portfolio fees net of deal-related costs of £22 million (2007: £14 million). Portfolio income at £227 million (2007: £253 million) is lower, reflecting the high level of dividend income generated during the previous year following a significant distribution from infrastructure fund I², as well as a fall in interest income following the sale of a number of high-yielding buyouts during the first half of the year.

The portfolio generated a yield of 5.2% (2007: 6.1%) of opening portfolio value during the year. Increased investment levels within both Buyouts and Growth Capital in the second half resulted in second-half income being £125 million, compared with £102 million in the first six months.

Gross portfolio return

Cumulative gross portfolio return for the year of £1,041 million (2007: £1,406 million) represented a return of 24% (2007: 34%) over the opening portfolio value.

Buyouts generated a return of £731 million (2007: £788 million), representing a 57% return over the opening portfolio value (2007: 54%). This excellent performance is primarily driven by the strong levels of realised profits generated during the year, but also by good portfolio performance.

Growth Capital generated a gross portfolio return in line with its objective, but below last year's exceptional level. The Growth Capital gross portfolio return of £302 million (2007: £569 million), a return of 21% (2007: 48%), reflected lower realisations from a less mature portfolio. 44% of the Growth Capital portfolio by value is valued on a cost basis. The most significant element of this return was unrealised profits of £160 million (2007: £269 million) as a number of first-time uplifts were generated from the Indian and Chinese portfolios, including Navayuga and China Digitone.

Infrastructure generated a gross portfolio return of £67 million (2007: £15 million) including £29 million from the increased value in the share price of 3i Infrastructure Limited, £6 million of dividend income from 3i Infrastructure Limited and £5 million of dividend income from the Group's direct investment in AWG.

The £42 million negative return for QPE was driven by the adverse movement in the share price of 3i Quoted Private Equity Limited since IPO.

SMI generated a gross portfolio return of £nil million (2007: £74 million). The lower gross portfolio return in the year was driven by lower levels of realised profits, as well as a fall in the multiples used to value the portfolio.

Venture Capital delivered a small loss of £(17) million (2007: £(46) million) or (2)% (2007: (6)%) over the opening portfolio value.

Fees receivable from external funds

An important element of our strategy is to grow the assets we manage or advise on behalf of others and to grow the level of fees 3i receives for advising or managing these funds. These fees have grown from £35 million in the year to 31 March 2004, when Eurofund IV was raised, to £60 million in the year to 31 March 2008.

In the year, the Group received or accrued fee income from its managed Buyout funds, 3i Infrastructure Limited, the 3i India Infrastructure Fund, and 3i Quoted Private Equity Limited. Fees received from the managed funds were £40 million (2007: £37 million) of which £26 million was from Eurofund V.

Total advisory fees of £9 million (2007: nil) comprises £8 million (2007: nil) from 3i Infrastructure Limited and £1 million (2007: nil) from 3i Quoted Private Equity Limited. These fees are payable based on the gross investment value of the advisory companies.

This year we are recognising performance fees received from 3i Infrastructure Limited (£3 million). These performance fees, which are based on the growth in NAV per share per annum, are subject to an 8% hurdle. When the performance hurdle is met, 20% of the net asset growth above the 8% hurdle is receivable by 3i. The amount accrued is based on 3i Infrastructure Limited's most recent publicly available information.

Page 36 contains a detailed schedule of the funds advised and managed by 3i.

Carried interest receivable

Carried interest aligns the incentivisation of 3i's investment staff and the management teams in 3i's portfolio with the interests of 3i's shareholders and those of fund investors. An explanation of carried interest is provided on pages 120 to 121 together with a description of our accounting methodology.

Carried interest receivable, which comes principally from the Buyouts business, was £60 million (2007: £81 million). This was driven by the high level of realised profits generated from the sale of Eurofund IV assets during the year, including Care Principles, HSS and Coor Service Management.

Carried interest and performance fees payable

Carried interest payable amounted to £149 million (2007: £142 million). This was based on the level of realised profits generated during the year and the closing value of portfolio assets that remain unrealised. The increase in the year is a consequence of the sale of investments from more recent vintages which attract a higher rate of carry.

Performance fees are payable to investment staff on both 3i Infrastructure Limited and 3i Quoted Private Equity Limited. These totalled £3 million in the year (2007: £nil) and relate to 3i Infrastructure Limited.

Table 7: Cost efficiency

for the year to 31 March

	2008 £m	2007 £m
Operating expenses	274	255
Fees receivable from external funds*	(57)	(37)
Net operating expenses	217	218
Net operating expenses/opening portfolio ("cost efficiency")	5.0%	5.3%

*Net of £3 million performance fee from 3i Infrastructure Limited in 2008.

Operating expenses

In March 2007, we announced the introduction of a new performance measure for cost efficiency: operating expenses (net of fund management and advisory fee income) as a percentage of opening portfolio value. The Group has published a mid-term target of 4.5% with a long-term objective of reducing this to 3.0%.

Operating expenses for the year were £274 million (2007: £255 million). This 7.5% increase followed two years of substantially higher increases (2007: 20.8%, 2006: 19.2%) to support significant geographic and business line expansion. The mid-term cost efficiency performance target stood at 5.0% for the year (2007: 5.3%).

With growth in assets under management of 37% in the year, including growth of 38% in 3i's direct portfolio, portfolio value has grown substantially ahead of the increase in operating expenses in the year. As a consequence, further progress towards the mid-term cost efficiency target is expected in the coming year.

Other movements

The most significant other movement in the year is the movement in the fair value of derivatives of £158 million. This increase almost entirely relates to fair value movements on the equity element of the convertible bond. The movement of this derivative is linked to movements in 3i Group plc's share price and to movements in the euro exchange rate. The movement in 3i's share price from £11.36 at 31 March 2007 to £8.30 at 31 March 2008 was the main reason for a £162 million gain.

Portfolio and assets under management

Table 8: Assets under management

as at 31 March

	2008 £m	2007 £m	
3i direct portfolio	6,016	4,362	04
Managed funds	3,143	2,387	05
Advised quoted funds	633	385	06
Total	9,792	7,134	07
			08

■ 3i direct portfolio
■ Managed funds
■ Quoted funds

Assets under management

A key element of the Group's strategy is to increase our assets under management and the fees generated from those assets. Assets under management include 3i's directly held portfolio, managed unlisted funds, some of which are co-investment funds and advised listed funds. Where 3i has a direct investment in the funds that it manages or advises, this is held at fair value within the direct portfolio. The value of external funds under management is based on the value on which income is earned by the Group, which normally includes uninvested commitments and the accounting valuation of invested assets.

Assets under management grew by 37% in the year to £9,792 million (2007: £7,134 million). This has been driven by higher investment levels and value growth from 3i's direct portfolio as well as the £400 million launch of 3i Quoted Private Equity Limited fund. At 31 March 2008, external managed funds for the 3i India Infrastructure Fund were £348 million (the US\$1.2 billion final closing of this fund was announced on 16 April 2008).

Table 9: Portfolio value by business line and vintage

as at 31 March

	2008 £m	2007 £m	2006 £m	2005 £m	Pre- 2005 £m	2008 £m	2007 £m
Buyouts	672	543	488	138	184	2,025	1,281
Growth Capital	1,009	536	457	124	240	2,366	1,460
Infrastructure	40	461	–	–	–	501	469
QPE	140	2	–	–	–	142	20
SMI	–	–	–	1	243	244	391
Venture Capital	72	139	99	84	344	738	741
Total	1,933	1,681	1,044	347	1,011	6,016	4,362
Percentage	32%	28%	17%	6%	17%		

Table 10: Portfolio value by geography

as at 31 March

	2008 £m	2007 £m
Continental Europe	2,573	1,894
UK	2,250	1,792
Asia	679	373
US	497	283
Rest of World	17	20
Total	6,016	4,362

Portfolio assets directly owned by the Group

The value of 3i's direct portfolio exceeded £6 billion for the first time since flotation in 1994 and grew 38% in the year.

The value of the Asia portfolio increased by 82% in the year to £679 million (2007: £373 million) and now represents 11% of the total Group portfolio (2007: 9%). The first US Growth Capital investments, following the opening of the New York office, resulted in a value for the US portfolio of £497 million.

The overall number of investments in the portfolio has also continued to fall. As at 31 March 2008, the number of investments in the portfolio was 487 (395 excluding SMI) compared with 762 (469 excluding SMI) at the beginning of the year. The SMI programme resulted in 201 exits in the year and Venture Capital accounted for a reduction of 35.

The Growth Capital portfolio has increased by almost £1 billion in the year to £2,366 million (2007: £1,460 million) and now represents 39% of the Group portfolio. The Buyouts portfolio increased by 58% in the year to £2,025 million (2007: £1,281 million), despite realising over 38% of the opening portfolio value. The value of the Venture Capital portfolio at £738 million is broadly in line with the value at the start of the year (2007: £741 million).

Assets managed or advised by 3i

These have grown by 37% (2007: 25%) in the period, reflecting growth in investment, the launch of 3i Quoted Private Equity Limited, a good performance from 3i Infrastructure Limited and value growth from Buyout co-investment funds managed by 3i.

As can be seen from Charts 1 and 2, the source of these funds is well diversified internationally and by type of investor. Eurofund V has 62 Limited Partners and the 3i India Infrastructure Fund 14 Limited Partners, excluding 3i and 3i Infrastructure Limited. 3i Quoted Private Equity Limited and 3i Infrastructure Limited are both listed companies.

Table 11: 3i direct portfolio value by sector

as at 31 March

	2008 £m	2007 £m
Business Services	819	586
Consumer	703	494
Financial Services	415	222
General Industrial	1,423	970
Healthcare	572	501
Media	455	338
Oil, Gas and Power	316	175
Technology	670	587
	5,373	3,873
Infrastructure	501	469
Quoted Private Equity	142	20
Total	6,016	4,362

Table 12: Managed and advised funds

Fund	Date closed	Fund size	3i commitment	Invested at March 2008 %
Eurofund III	July 1999	€1,990m	€995m	93%
Eurofund IV	June 2004	€3,067m	€1,941m	93%
Eurofund V	November 2006	€5,000m	€2,780m	40%
3i Infrastructure Limited	March 2007	£700m	£325m	88%
3i Quoted Private Equity Limited	June 2007	£400m	£181m	26%
3i India Infrastructure Fund*	March 2008	\$1,195m	\$250m	28%

*First close in October 2007 at \$500 million, including a commitment of \$250 million from 3i Group plc and \$250 million from 3i Infrastructure Limited.

Chart 1: Investor base for non-listed funds managed and advised by type of investor (%)

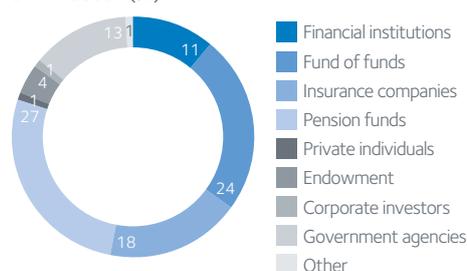
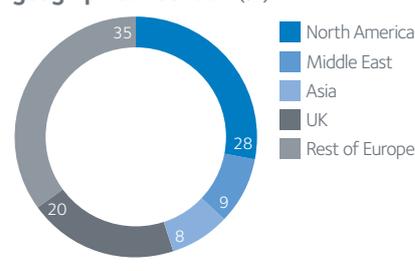


Chart 2: Investor base for non-listed funds managed and advised by geographical location (%)



These charts have been prepared on the basis of size commitment.

Capital structure, gearing and liquidity

Table 13: Group balance sheet

as at 31 March

	2008	2007
Shareholders' funds	£4,057m	£4,249m
Net borrowings/(surplus)	£1,638m	£(1)m
Gearing	40%	0%
Diluted net asset value per ordinary share	£10.77	£9.32

Capital structure

3i's capital structure comprises shareholders' funds, long-term and short-term borrowings, as well as liquid treasury assets. The Board is committed to achieving capital efficiency and targets an optimum gearing ratio of debt to shareholders' funds of between 30% to 40% through the cycle.

During the year, the Group returned £808 million to shareholders through a bonus issue of B shares. In addition, 12 million shares were purchased on market for an aggregate consideration of £120 million, and subsequently cancelled.

The Group's €550 million convertible bond has a maturity date of 1 August 2008. The terms of the bond provide for a number of settlement options dependent on whether a conversion notice is received from a bondholder, or settlement arises on maturity. It is also the Group's intention to refinance its €550 million convertible bond, which matures on 1 August 2008, through the issuance of another convertible bond. The new circa £425 million convertible bond will have an effective conversion premium of 60% and will mature in 2011.

Gearing

Capital efficiency improved during the year due to net investment of £(418) million (2007: net divestment of £862 million) and the return of a total of £928 million (2007: £774 million) to shareholders. Gearing at 31 March 2008 was 40% (2007: 0%).

Liquidity

3i had cash and liquid deposits totalling £796 million at 31 March 2008 (2007: £2,154 million) and undrawn committed facilities of £286 million (2007: £491 million).

Growth in diluted net asset value

The net asset value per ordinary share rose from £9.32 at 31 March 2007 to £10.77 at the year end, an increase of £1.45. The increase before dilution due to the £808 million return of capital and dividends paid to shareholders in the year, was £1.94. This represents a gross return before shareholder distributions of 21%.

Business review Risk management

3i has a risk management framework which provides a structured and consistent process for identifying, assessing and responding to risks in relation to the Group's strategy and business objectives.

Introduction

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

By reporting regularly to Audit and Compliance Committee, the Group's Compliance and Risk Assurance and Audit functions provide support to the Board in maintaining the effectiveness of risk management across the Group. The Group's risk management processes, including a number of new committees providing input to Group Risk Management Committee, became operational in March 2007 and formalised many existing practices. The diagram below shows this risk management framework and outlines the key responsibilities of each committee.

Risk governance

Group Risk Management Committee

- Responsible for overall risk management process
- Monitors changes in external risk environment
- Reviews reports from Investment, Operational and Financial Risk Committees
- Reports to Audit and Compliance Committee

Investment Committee

- Takes or recommends investment decisions on individual opportunities

Operational Risk Committee

- Provides input to the setting of investment policy and guidelines
- Deals with all aspects of operational risk

Financial Risk Committee

- Assesses financial risk including treasury and funding risk
- Quarterly monitoring of portfolio composition

Conflicts Committee

Decides issues on conflicts arising in investment process and other areas

Health and Safety Committee

Reviews Health and Safety arrangements and policy
Monitors implementation and performance

Corporate Responsibility Committee

Recommends socially responsible investment policy
Identifies and promotes awareness of corporate responsibility and developments, opportunities and risks

Regulatory Risk Forum

Provides regulatory input to investment policy
Identifies and promotes awareness of regulatory developments and risks

Risk categories

Risk type	Brief description	Further information	Risk mitigation
External	Risks arising from current, proposed and anticipated political, legal, regulatory, economic policy and competitor changes	<ul style="list-style-type: none"> – Chairman's statement – Chief Executive's statement – Business review, Group business section 	<ul style="list-style-type: none"> – Entry into new geographical markets subject to extensive market research and due diligence – Close monitoring of regulatory and fiscal developments in main markets – Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets
Strategic	Risks arising from the analysis, design and implementation of the Group's business model, and key decisions on investment levels and capital allocations	<ul style="list-style-type: none"> – Business review, Group business, Our strategy section 	<ul style="list-style-type: none"> – Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions – Regular monitoring by Group Risk Management Committee
Investment	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios	<ul style="list-style-type: none"> – Business review, Financial review section – Financial statements – Ten largest investments 	<ul style="list-style-type: none"> – Investment Committee approval of all significant investments – Regular asset reviews – Representation by a 3i investment executive on the boards of investee companies – Portfolio is subject to periodic reviews at both the business line and Group levels to monitor exposure to any one sector or geography
Treasury and funding	Risks arising from (i) uncertainty in market prices and rates, (ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or (iii) inappropriate capital structure	<ul style="list-style-type: none"> – Business review, Financial review section – Notes to the financial statements 	<ul style="list-style-type: none"> – Credit risk exposure is managed on an asset-specific basis by individual investment managers – Board review of the Group's financial resources every six months – Assets denominated in foreign currency broadly matched with borrowings in the same currency – Type and maturity of the borrowings broadly matched to those of the corresponding assets
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these	<ul style="list-style-type: none"> – Business review – Corporate responsibility report 	<ul style="list-style-type: none"> – Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks – Framework of core values, standards and controls, a code of business conduct and delegated authorities are in place – Independent internal audit function carries out periodic reviews

External risks

Macroeconomic risks

3i invests mainly in European companies and continues to develop its operations in Asia and the US. The performance of the Group's underlying investment portfolio is influenced by economic growth, interest rates, currency movements and changes in commodity and energy prices. Market conditions for initial public offerings, the level of mergers and acquisitions activity, the number of active trade or other private equity buyers and the availability of well-priced debt finance, all have an impact, not only on the Group's ability to invest but on the Group's ability to exit from its underlying portfolio, or on the levels of profitability achieved on exit.

To mitigate this, 3i aims to invest over time in a range of sectors, with different economic cycles, across its different business lines and geographical markets. This includes expansion in both the US and in Asia, which further diversifies the portfolio.

Geopolitical risk

Part of the Group's investment strategy is to invest in new and emerging markets. The legal, regulatory and capital frameworks in these markets may be less developed than in the other main geographical markets in which the Group operates. Changes and developments in all our markets are monitored closely to ensure that any impact on the value of existing investments, planned levels of investment or investment returns are, as far as possible, anticipated, understood and acted upon. This work includes periodic legal and regulatory updates by geography, in-depth market and sector research and regular reviews for existing investments. Entry into new geographical markets is subject to extensive market research and due diligence.

Government policy and regulation

3i Investments plc, 3i Europe plc and 3i Nordic plc, all wholly-owned subsidiaries of 3i Group plc, are authorised persons under the Financial Services and Markets Act 2000 and regulated by the FSA in the United Kingdom. Where applicable, certain 3i subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities. Changes to the regulatory frameworks under which the Group operates are closely monitored. There are also appropriate processes and procedures in place, including a dedicated Group Compliance function, whose remit is to minimise the risk of a breach of applicable regulations which could affect the Group's compliance costs, its business, results of operations or financial position.

3i carries on business as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. Continuation of this status is subject to the Company directing its affairs in line with the relevant requirements of the legislation. Anticipated and actual changes in government policy and related tax treatment of investment trusts are closely monitored, as are other changes which could affect results of operations or financial position. Related risks exist in other jurisdictions in which the Group operates, where there is similar close monitoring of changes in local taxation legislation which could affect the expected tax position of the Group.

Strategic risks

The Group's strategy is based on a full analysis of its operating environment. In determining the appropriate business model, market and sector evaluations are taken into account, as well as the identification and assessment of external and internal risk factors. Significant unexpected changes or outcomes, beyond those factored into the Group's strategy and business model, may occur which could have an impact on the Group's performance or financial position.

This is addressed through the monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions.

Investment risks

Investment decisions

The Group operates in a very competitive market. Changes in the number of market participants, the availability of funds within the market, the pricing of assets, or in the ability to access deals on a proprietary basis could have a significant effect on the Group's competitive position and on the sustainability of returns.

The ability of the Group to source and execute good quality investments in such markets is dependent upon a range of factors. The most important of these include:

(i) the ability to attract and develop people with the requisite investment experience and cultural fit; (ii) organisation of teams whose structure is market-adapted and whose compensation is results-oriented; and (iii) effective application of collective knowledge and relationships to each investment opportunity.

3i's investment appraisal is undertaken in a rigorous manner. This includes approval by the relevant business line partnerships, and where appropriate, peer review by executives from other business lines, together with 3i's international network of industry and sector specialists. Investments over £5 million are presented to an Investment Committee chaired by an authorised member of the Management Committee and comprising our senior investment executives.

Investment performance

The performance of the Group's portfolio is dependent upon a range of factors. These include, but are not limited to: (i) the quality of the initial investment decision described above; (ii) the ability of the portfolio company to execute successfully its business strategy; and (iii) actual outcomes against the key assumptions underlying the portfolio company's financial projections. Any one of these factors could have an impact on the valuation of a portfolio company and upon the Group's ability to make a profitable exit from the investment within the desired timeframe.

A rigorous process is put in place for managing the relationship with each investee company for the period through to realisation. This includes regular asset reviews and, in many cases, board representation by a 3i investment executive.

Investment concentration

The Group invests across a range of economic sectors and geographies. Over-exposure to a particular sector or geography could increase the impact of adverse changes in macroeconomic or market conditions on the Group. An increase in the average size of investments over time could also increase the exposure of the Group to the performance of a small number of large investments, albeit in different sectors and/or geographies. The portfolio is subject to periodic reviews by Financial Risk Committee and by individual business lines in order to monitor exposure to any one sector or geography and to

monitor the exposure to larger investments.

One of the conditions set out under section 842 of the Income and Corporation Taxes Act 1988 is that no single investment can exceed 15% of the Group's investment portfolio to maintain the Group's tax status as an Investment Trust. This also mitigates the Group's exposure to investment concentration risk.

Investment valuations and exit opportunities

The valuation of 3i's portfolio and opportunities for realisations depend to some extent on stock market conditions and the buoyancy of the wider mergers and acquisitions market. Changes in market or macroeconomic conditions could impact the valuation of portfolio assets and the ability to exit those investments profitably within the desired timeframe.

Treasury and funding risks

3i's funding objective is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets and that funding needs are met ahead of planned investment.

Credit risk

3i's financial assets are predominantly unsecured investments in unquoted companies. An increase in concentration of the portfolio in a particular economic sector or geography could increase credit risk. Likewise, large or unexpected increases in interest rates could increase credit risk, particularly in companies which are highly leveraged.

The Group considers the maximum credit risk to be the carrying value of loans and receivables and credit risk exposure is managed on an asset-specific basis by individual investment managers. Regular asset reviews within each business line provide an insight into the trading performance of individual assets and give an early indication of increased credit risk. Leverage levels and performance of individual assets are also reviewed periodically by the Financial Risk Committee.

The Group's remaining financial assets are mainly in the form of deposits with banks of a credit rating of AA or better. Counterparty limits are set and closely monitored.

Liquidity risk

The Group invests from its own balance sheet using cash generated from its investing activities and its core funding. The Group also has available to it undrawn committed facilities. In addition to funding from its own balance sheet, the Group periodically raises third-party funds and also invests indirectly through funds administered by third parties, or quoted investment vehicles.

Unexpected changes in the levels of investment and divestment activities or in interest rates could impact the availability of funds required for investment needs or to meet obligations as they fall due.

To manage this, a range of cash flow forecasts are produced and updated on a regular basis for each business line and for the Group as a whole. Financial Risk Committee reviews the Group's liquidity on a quarterly basis and the Board reviews the Group's financial resources every six months. This includes consideration of the currency hedging and maturity profile aspects, as well as liquidity, of the Group's current and forecast financial position.

Price risk

The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. The Group does not currently hedge the market risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

Foreign exchange risk

3i reports in sterling and pays dividends from its sterling profits. The Group seeks to reduce structural currency exposures by matching investment assets denominated in foreign currency with borrowings in the same currency. The Group makes some use of derivative financial instruments to effect foreign exchange management. The current policy is to hedge the main currency exposures in the range of 90%–100%.

Interest rate risk

3i has a mixture of fixed and floating-rate assets. The assets are funded with a combination of shareholders' funds and borrowings according to the risk characteristics of the assets. The Board seeks to minimise interest rate exposure by considering the average life profile of the various asset classes and adopting a portfolio approach to the interest rate hedging structure. Some derivative financial instruments are used to achieve this objective.

Operational risks

The Group is exposed to a range of operational risks which can arise from inadequate or failed processes, people and systems or from external factors affecting these. These include operational events such as human resources risks, legal and regulatory risks, information technology systems failures, business disruption and shortcomings in internal controls. Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks. This is supported by a framework of core values, standards and controls, a code of business conduct and delegated authorities. There is also an independent internal audit function which carries out periodic reviews.

People

The ability to recruit, develop and retain capable people is of fundamental importance to achieving the Group's strategy. The Group operates in a competitive industry and aims to remunerate staff in line with market practice and to provide superior development opportunities. The Group has human resources policies and procedures covering recruitment, vetting and performance management and appropriate processes in place to monitor their application. Staff engagement is also regularly evaluated and reported to the Board.

Business processes

The Group's information technology and treasury systems, as well as its business processes and procedures, support its operations and business performance. The Group has policies and procedures covering information security, change management, business continuity and disaster recovery. These are subject to periodic testing.

Legal and regulatory

In order to conform to necessary legal and regulatory requirements across multiple jurisdictions, the Group operates a complex legal and corporate structure. This requires appropriate internal processes and procedures to be developed and followed, supported by professional teams with appropriate skills, drawing upon external resources where appropriate. There is also a Regulatory Risk Forum which meets periodically to review and plan for forthcoming and anticipated legal and regulatory changes which could impact the Group.

Corporate responsibility report

“Our approach to corporate responsibility is commercially based and driven by our vision to be the private equity firm of choice.”

Kevin Dunn Group Company Secretary

Core values

We believe that the highest standard of integrity is essential in business. In all our activities, we aim to:

- be commercial and fair;
- respect the needs of our shareholders, our staff, our suppliers, the local community and the businesses in which we invest;
- maintain our integrity and professionalism; and
- strive for continual improvement and innovation.

Contact us

For more information please contact Kevin Dunn at KevinDunnCR@3i.com

Our approach

3i has been helping to grow and to transform businesses for over 60 years. We have also been building our own business, from a small London-based operation, to the international FTSE100 company that it is today, with assets under management of almost £10 billion.

Our approach to corporate responsibility is commercially based and driven by our vision to be the private equity firm of choice; operating on a world-wide scale; producing consistent market-beating returns; acknowledged for our partnership style and winning through our unparalleled resources.

We view an active approach to corporate responsibility as more than simply a means to retain our licence to operate, or to reduce risk. We believe that it provides genuine competitive advantage and that it helps us to maximise the returns for our shareholders, as well as for the investors in the funds that we advise or manage.

We think about corporate responsibility from two perspectives: “as an investor” and “as a company” in our own right. Our experience of working with management teams in growing companies, in a broad range of sectors and countries around the world, has led us to believe that the companies we back will grow more and be more attractive to potential purchasers if they are strong on corporate responsibility issues. Our own staff and the people who work in our portfolio companies want to work for companies of which they feel proud. Growth is easier with enthusiastic customers, with strong supplier relationships and with a good reputation locally and within a sector.

Achieving these objectives depends upon high-quality management teams and good values, as well as effective communication and alignment of interests. Statements of intent and policies are necessary and important but they are by no means sufficient. As a corporate investor, the success of our approach depends upon the actions of individuals and the judgments that they make on a daily basis. Awareness and training are therefore critical so that corporate responsibility issues are properly considered and the right decisions are made and implemented, whether we are planning the launch of a new 3i business line or assessing an individual investment.

The pace of change in business and in society, combined with the rising expectations placed on companies, means that the corporate responsibility agenda is developing rapidly. Our corporate responsibility committee, which is comprised of executives from across the business, is charged with ensuring that 3i is thinking ahead on these issues, as well as operating to the standards that our Board expects.

As part of our drive for continuous improvement, the current information contained on our investor relations website (www.3igroup.com) will soon be supplemented by a new dedicated corporate responsibility website – www.3icr.com – which is being launched in June 2008.

As an investor

As an investor we view corporate responsibility from two perspectives: risk and opportunity. The most significant corporate responsibility-related risks arising from our investment activity relate to environmental, ethical, governance and social issues. If these risks are not identified and managed effectively, then the success of our portfolio companies can be compromised and 3i's reputation could be affected. So identifying and managing these risks well is an important part of managing risk for 3i. The opportunity for 3i is that supporting the sustainable growth of our portfolio companies increases their value and attraction to others.





With £9.8 billion of assets under management, consisting of £6.0 billion of our own assets and £3.8 billion of third party funds, and a portfolio of over 450 investments in a broad range of sectors across Europe, Asia and the US, we are well diversified and have a broad base of knowledge and experience on which to draw. The business line reviews on pages 12 to 27 contain detailed case studies of our largest investments and realisations in the year and pages 108 to 109 contain details of our ten largest investments and forty other large investments.

As a company

As a private equity business with around 750 employees world-wide, 3i has a relatively small footprint on many corporate responsibility issues. However, being a private equity business with a sizeable portfolio and a business which operates internationally across Europe, in Asia and in the US, we recognise that our sustained success and our reputation for being a good corporate citizen mean taking our corporate responsibilities seriously.

Being focused on the mid market, operating on a world-wide scale and as one of the few publicly-listed private equity firms, 3i is differentiated within the private equity industry and has been actively involved in the evolution of the corporate responsibility agenda for many years. Indeed, 3i was a founder member of Business in the Community over 25 years ago.

Throughout our history we have been actively involved in supporting the development of the industry through the industry associations and other activity. Over the course of the past 12 months we have taken a leading role in a number of sector-based initiatives, including in particular the Walker Review Group in the UK on transparency. Taking a lead on issues that affect our sector as a whole is consistent with our vision of 3i as a leading private equity firm. It is also in our interest to share our experience with our competitors in order to learn ourselves and to help improve the performance of the sector as a whole.

3i is well represented on the various committees and councils of industry bodies, especially in Europe where Jonathan Russell, Managing Partner, Buyouts, is the Chairman elect of the European Private Equity and Venture Capital Association.

Detailed information is provided on pages 50 to 53 about 3i as a company, but we also felt that it would be helpful to provide a 3i perspective on four key challenges put to the industry recently. These issues relate to the value that private equity firms bring to their investments; their approach to the management teams of the companies in which they invest and the degree to which they act in partnership; the accountability of private equity firms and finally, transparency.

A 3i perspective on some industry issues

Do private equity firms add value to their portfolio companies?

The private equity industry is highly competitive and is an industry in which competing firms differentiate themselves by their track records and style of investing.

This differentiation is key when raising funds or pitching to the management teams and owners of businesses. That the success of a business depends on both financial and non-financial performance is recognised within the industry and 3i and other private equity firms have well-developed approaches to helping their portfolio companies grow. We do this through the boards of these companies and by bringing the benefit of our experience, knowledge and networks. Our website, www.3i.com, has many examples of businesses that we have backed and the value that we have brought in the process.

How do private equity firms engage with management teams?

Our experience of investing, and working internationally has helped us to understand that we are stronger as a company when we work with others to pursue mutual interests. Strong relationships are based on trust, which is earned over time. Our focus with portfolio companies is on working through the board and with professional advisers. We recognise that the quality of our track record locally and within a sector is a key element of the origination and conversion of future investment opportunities. A good reputation, backed up by tangible evidence of past behaviour, is therefore key to becoming a preferred investor and making investments.

3i is proud to have been a founder member of Business in the Community over 25 years ago.



How accountable are private equity firms?

We understand that we are accountable to our investors, but also to others, for the decisions that we make. 3i is a member of the FTSE100 and has over 26,000 shareholders, including some of the world's biggest financial institutions. There are also over 70 Limited Partners invested in funds managed or advised by 3i. This means that we are subject to considerable scrutiny, not just by these investors, but also by rating agencies, the press, governments and many other groups.

We, like other private equity firms based in the UK, are regulated by the Financial Services Authority ("FSA"). As a listed company we must also adhere to stock exchange regulations, as well as the prevailing regulation in each of the countries and markets where we operate. An example of one aspect of FSA regulation is the requirement for regulated firms to treat their regulatory customers fairly. This is demonstrated by the FSA's "Treating Customers Fairly" initiative. Whilst the focus of this FSA initiative is on retail financial services businesses, the concept is relevant to other financial service businesses such as 3i. 3i has policies and procedures in place to seek to ensure that all those that it interacts with (and not just its regulatory customers) are treated fairly.

How transparent are private equity firms?

3i's objective has been to take an open and straightforward approach to doing business and in describing what we do and the way in which we do it to those who have an interest. This Corporate responsibility report, together with "3i and Transparency" on pages 122 to 123, the Private equity lexicon on pages 116 to 117, as well as the guides to "Returns and IRRs" and "Carried interest" on pages 118 to 121, are practical examples of this.

3i is also delighted to participate in the Carbon Disclosure Project and to be a member of both the Dow Jones Sustainability Index and the Business in the Community Corporate Responsibility Index. In the last two years we have also won awards for our Annual report and our Corporate responsibility report.

The demand for transparency has been growing as the private equity industry has grown. Private equity has increasingly become a mainstream asset class for investors. The size of the companies in which private equity firms invest has also grown, as have political and public interest. Despite the scope of our own disclosure and 3i's reputation in this area, it was clear in 2007 that the pressures being placed on the private equity sector risked affecting 3i as well and that in the UK in particular a sector-wide response was needed.

Through the British Private Equity and Venture Capital Association ("BVCA") 3i supported the creation of an independent working group led by Sir David Walker. The group's mandate was to investigate how to improve disclosure within the sector. 3i was supportive of the group's work and our Chairman, Baroness Hogg, was a member. In November 2007 the Walker Guidelines were published and 3i was one of the first to commit to comply with them. The "3i and Transparency" section on pages 122 to 123 provides details of these guidelines and how 3i measures up against them.

Our commitment to greater transparency has also prompted a reconsideration of our Corporate responsibility report. We recognised that people are generally most interested in our activities as an investor and so this year we have added more content on our investment process in this report, as well as on the new Corporate Responsibility website (www.3icr.com) which is due to be launched in June.



For further information on 3i and Transparency and how 3i meets the Walker guidelines, please go to [pages 122 and 123](#)

"It is very important to Robeco that we invest in private equity firms that take corporate responsibility seriously and 3i does."

Andrew Musters Robeco

ROBECO

Corporate responsibility in our investment activity

Our investment process involves four key stages. Corporate responsibility considerations are important in each of those stages to sustain successful outcomes.

- Fund raising
- Investment assessment
- Creating value once we are invested
- Realisation

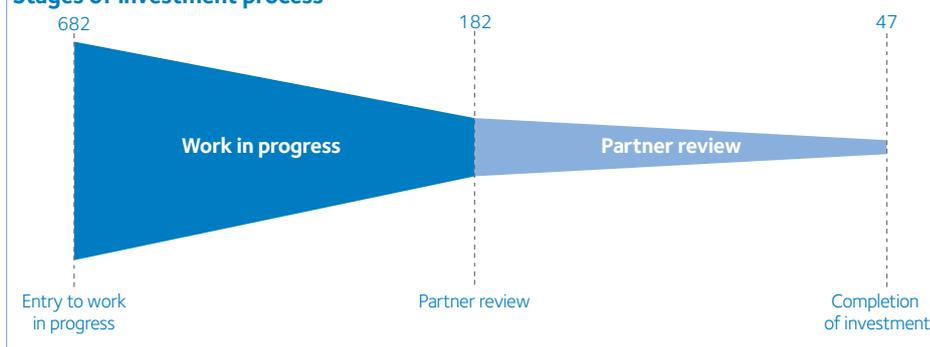
Fundraising

Investments are made by 3i using cash from our own balance sheet, as well as from funds that 3i manages or advises for third-parties. At 31 March 2008 3i had £9.8 billion of assets under management, comprising £6.0 billion of our own assets and £3.8 billion of third party funds. 3i's own capital has been built from the success of earlier investments. Since the company was formed in 1945, with £10 million of share capital, it has only received another £10 million from shareholders and, ignoring ordinary dividends, has given over £2 billion back to shareholders.

A list of the funds managed for third parties is set out on page 36. These funds are raised to invest in specific business lines and have clear investment mandates. For example, Eurofund V is a mid-market buy out fund which is focused on Europe, but has the flexibility to invest up to 10% of the size of the fund in Asia.

Interest in the degree to which 3i and other public companies and private equity firms consider environmental, ethical, governance and social issues in our own business has been growing amongst a number of large institutional shareholders and Limited Partners in private equity funds. 3i is a member of the Dow Jones Sustainability index and the Business in the Community Corporate responsibility index. 3i has also been reporting to the Carbon Disclosure Project for the past two years. Investors representing \$56 trillion of assets under management have signed up to the Carbon Disclosure Project, which calls on major companies from around the world to provide specific details on climate change risk.

Stages of investment process



Investment assessment

Our reputation is one of our most important assets. Accordingly, an effective review process to identify risks and opportunities in potential new investments is crucial to our sustained success. This can be a particular challenge in emerging markets, where publicly available information is sometimes thin. One of the benefits 3i has, in both developed and emerging markets, is that our reputation as a values-based company with high standards might deter those who are reluctant to go through our diligence process. In a competitive industry this may mean that from time to time we lose otherwise attractive business.

Whilst each investment is considered on its own merits, there is a standard review process for all types of investments, which aims to identify all of the issues that might affect our decision to invest. Consideration of corporate responsibility issues is embedded as a mandatory part of this process.

All new investment opportunities are the subject of a process of filtering and review. In the year to 31 March 2008, 682 companies entered our formal work in progress but we made only 47 investments. Following a preliminary appraisal of the potential investment opportunity, a decision is taken whether to commit further resource to progress the investment opportunity and place it in formal work in progress.

The opportunity is then subsequently reviewed in detail by a group of senior and experienced investment executives in the relevant business line and sector (known as the "Partner Review"). If it is agreed through the Partner Review process that a particular investment opportunity should continue to be progressed, the Partner Review process will also agree what further in-depth analysis and due diligence should be undertaken.

Overall, our approval process might involve up to 30 different people with sector and regional expertise, but there will be a core group of people responsible for progressing the investment. This investment team is given access to the funds it needs to undertake comprehensive due diligence. The time taken for this will vary considerably, depending on the nature of the investment, whether we are already invested in the company and the complexity of the issues involved. It is also not uncommon, given the depth and breadth of our relationships, for 3i to have known a company or management team for a considerable time before an investment opportunity emerges.

Corporate responsibility report continued

“The corporate responsibility agenda is developing rapidly and it is critical that 3i is not only operating to the standards that our Board expects but also thinking ahead.”

Baroness Hogg Chairman

Summary of Corporate responsibility Investment policy

As a socially responsible investor, 3i aims to invest in companies that act responsibly in terms of environmental, ethical, governance and social issues. This objective reflects our values and culture, as well as the wishes of our investors and employees, and helps protect and enhance our reputation.

Before we make an investment, we review all potential investee companies from a corporate responsibility perspective as part of our investment procedures. Further details of our review process are set out on pages 47 and 48.

We aim to avoid investing in companies that do not:

- respect human rights;
- comply with current environmental, ethical and social legislation;
- have proposals to address defined future legislation; or
- seek to comply with their industry standards and best practice.

We consider that an awareness of corporate responsibility risks and how to deal with them is fundamental to our due diligence and portfolio management. Our policies provide guidance to our staff on a wide range of potential ethical, governance, social and environmental challenges, which include consideration of:

- susceptibility to human rights abuses, such as child or slave labour or bans on trade unions;
- corruption issues arising as a result of industry or geographic business practices;
- ethically sensitive sectors, including arms manufacture, animal testing, gambling, pornography and tobacco;
- impacts on the environment and sensitive natural resources; and
- compliance with social legislation, such as laws governing discrimination, employment terms and health and safety.

3i operates internationally: our policy provides that a particular practice considered lawful in one country may nevertheless be considered unacceptable by 3i.

Post investment, we seek to ensure that the companies in which we invest maintain a responsible corporate responsibility policy. Further details of our approach to actively engaging with our portfolio companies to manage and, where necessary, remediate corporate responsibility issues, are set out on pages 48 and 49.

An explicit review of environmental, ethical, governance and social issues is required for each company under review. We have access to an international network of specialist consultancies, who undertake the due diligence on our behalf.

The “front sheet”, which summarises the investment proposition, includes a mandatory section on environmental, ethical and social risks. The entrepreneurial culture is important to our business model, so we do not impose a box-ticking approach to compliance: we expect our investment teams to take responsibility for results and help ensure that they have the capacity and resources to identify and address relevant issues. We reinforce this by including in the approval process senior partners from our sector teams and from our country offices together with relevant support from our professional services teams or external professional advisers. This ensures that the proposals are screened by people with an in-depth understanding of the sector, the country and region and the issue, whatever it might be.

There are many reasons why an investment may not be approved and often it is a combination of different concerns that leads us to reject an investment proposal.

Identifying an environmental, ethical or social risk in our due diligence process does not necessarily mean that we will withdraw. This is because we recognise three levels of compliance with our policies: full; partial; and serious non-compliance. As a result of the nature of the relationship between a private equity investor and a portfolio company, we can often have a strong influence on the company’s priorities. We will therefore work with the company and its management to change practices towards full compliance. Helping to resolve an issue may be an important element of our ability to enhance our investment. A simple example might be 3i’s support in identifying and recruiting a different director with specialist skills in the area concerned.

We operate internationally and so it is important that we consider issues in the context of local expectations and 3i’s values, including considering whether a problem exists because of a lack of expertise or capacity, rather than something more fundamental. Depending on the nature of the risk identified and its seriousness, a condition precedent or post completion undertaking, requiring that the situation be remedied, may be required from the investee company or its management before we will proceed. Confidence in the management team’s capacity and will to address issues satisfactorily will be a key determinant of whether we proceed or not.

The assessment of the material risks and opportunities facing a business is not the only rationale for assessing corporate responsibility issues in our investment process. Our experience suggests that one of the fundamental factors for investment success is the quality of the portfolio company management team. The approach we take to assessing potential investments places considerable emphasis on understanding and being comfortable with the management team. Their approach to dealing with due diligence on corporate responsibility issues can be a useful indicator of quality. For example, a chief executive with a poor approach to health and safety is likely to be weak in other aspects of his or her role.



Growing the company

Before we invest in a company we agree a clear value creation plan with the board and with the management team who will be responsible for delivering the plan. This will also involve an expectation that 3i will deliver on the actions it is responsible for in the plan. These may relate to strategic input, a specific functional expertise or providing access to relevant relationships around the world. This added value may be why we have been chosen as the preferred investor and so delivering on our commitments is important. The initial post investment phase will involve validation and refinement of the plan based around a classic first 100-days' approach. Such a plan would also include any environmental, ethical, governance or social risks or opportunities that were identified either in due diligence or in the post investment analysis.

We undertake portfolio reviews every six months, where the investment team presents the progress and future plans to a review committee. Any material corporate responsibility issues that were part of the 100-day plan would be included in this until they are resolved; in addition, at least once a year, other corporate responsibility issues will be considered on the agenda.

We bring a collaborative approach to the companies in which we invest. Despite having extensive sector expertise and often taking a role on the board, we recognise that we cannot know a company as well as its management. It is the management who, being closest to the situation, must make most decisions.

An early priority, then, is to help ensure that the governance of the company is as robust as possible and to help support the management team and board. Where necessary, we will put a pre-selected chairman in place, one of whose tasks is to be responsible for corporate responsibility.

We have dedicated programmes and activities to help build board capacity and capability. These include our CEO forums and sector events, which are opportunities for the CEOs of our portfolio companies to come together.

These provide an opportunity to learn from, and share experiences with peers in other companies either in or outside the same sector and country.

Our Business Leaders Network which operates on a world-wide basis, also provides opportunities for our portfolio companies to access experienced chairmen and board directors and, for those involved, to network and learn from each other. Many of those in our Business Leaders Network have run successful 3i-backed companies and so have a good understanding and empathy with the issues managers face.

Realisations

When we have helped the company implement its plans, there are three basic approaches to realising the value of our investment: a sale to a trade buyer (eg, a company in the same sector); a sale to another financial buyer (eg, another private equity firm with a new growth strategy); or a listing on a stock exchange through an IPO.

Corporate responsibility plays an important role in the valuation process for each of these exits. Trade buyers tend to be bigger companies in the same sector. These companies, especially if they are listed, tend to have well-developed corporate responsibility policies and expect high standards. Increasingly, therefore, their audit and valuation processes look at the portfolio company's corporate responsibility strategy, systems and performance.

If a trade buyer or another financial buyer were to identify a material risk or opportunity that we had missed, then this could be used to disadvantage 3i in negotiations. As a result, we often undertake another detailed due diligence process prior to sale, which includes environmental, ethical and social issues.

Any company that we take to IPO must meet the listing requirements of the relevant markets and pass the scrutiny of, for instance, the SEC or FSA reviewers, as well as the environmental, ethical, governance and social standards expected.

Sources of expertise

We are sometimes asked about the sources of our expertise on corporate responsibility issues. Within 3i it is the combination of our professional service and investments teams who draw on the knowledge and experience that we have built up over many years. Our sector and local teams also have in-depth knowledge of specific issues relating to particular sectors or regions. Our Corporate Responsibility, Health & Safety, Risk and other committees provide the necessary processes and additional expertise.

Externally, we work with the leading consultancies on environmental, ethical and social due diligence on issues including compliance, liability and reputational risk. Our portfolio companies are also a rich source of experience and their management teams can also provide interesting insights for 3i and for their peers in other portfolio companies.

The chairman of the Corporate Responsibility Committee, Kevin Dunn, is also a member of Business in the Community's leadership group.

Corporate responsibility report continued

“Our people and the level of their engagement are critical to our continued success.”

Philip Yea Chief Executive

The Corporate Responsibility Committee

Kevin Dunn	Company Secretary and Chairman of the Committee
Deepak Bagla	a Director in 3i's India Infrastructure investment business
Whitney Bower	a Partner in US Growth Capital
Denise Collis	Group Human Resources Director
Douwe Cosijn	Head of Investor Relations
Patrick Dunne	Group Communications Director
David Holligon	a Partner in UK Buyouts
Hans Middelthorn	an Investment Director in 3i's Oil and Gas team
Barbara Sterlina	a Communications Executive
Tony Wang	an Associate Director in 3i's Asia investment business
Phil White	a Director in UK Infrastructure

The Committee's membership reflects the balance of 3i's business with representation from Europe, Asia and the US and from a range of business line and Group activities.

Corporate responsibility in our company

3i is a people business with an entrepreneurial culture that depends on our employees' depth of knowledge and their networks of strong internal and external relationships. Our success is directly related to our ability to recruit, train, engage and retain highly skilled people.

3i's staff are fundamental to the success of our business. An environment of mutual respect, where staff are highly motivated by their work, where they have a strong commitment to deliver and where retention is good, are the standards we strive to achieve and maintain.

Employees are organised in small teams and a spirit of co-operation is encouraged to support the highest standards of integrity and professionalism. In accordance with 3i's core values, individual consultation with employees on matters affecting them and fair and open communication, are a high priority.

An objective of our Chief Executive is to meet separately with each team every year to listen to their views and insights and to share his vision and strategy for the business. In addition, his policy is to have a one-to-one meeting with each new joiner, regardless of organisational level.

Roles and responsibilities

The Board as a whole is responsible for corporate responsibility. The Executive Directors are responsible for ensuring compliance with 3i's corporate values and standards. 3i's Corporate Responsibility Committee ("the Committee") considers and reviews environmental, ethical and social issues relevant to 3i's business and reports regularly to the Board. It promotes awareness of these issues across the business through training and communication. It promotes the development of corporate responsibility policies, procedures and initiatives, and monitors and reviews their operation.

The Committee, on behalf of the Board, identifies and assesses the significant risks and opportunities for 3i arising from social, ethical and environmental issues. A risk matrix methodology is used to identify and assess potential risks and their impact, monitor developing trends and best practice and consider changes in 3i's business and culture. A Group-wide risk log is used to record identified risks and to monitor their management and mitigation. This log of identified risks is reviewed and updated at meetings of the Committee and significant risks are reported to 3i's Operational Risk Committee. There is a detailed description of risk management at 3i on pages 38 to 43.

As Chairman of the Committee, Kevin Dunn has specific responsibility for 3i's corporate responsibility policies, leading the development of new initiatives and targets and reporting to the Board. The Committee's membership reflects the balance of 3i's business with representation from Europe, Asia and the US and from a range of business line and Group activities.

All employees have a responsibility to be aware of and to abide by, 3i's policies and procedures, which have been developed to guide staff and regulate the conduct of the day-to-day operations of the business. These policies and procedures include 3i's environmental, ethical and social policies and are available to all employees through 3i's portal, a web-based knowledge system. Employees are encouraged to make suggestions to improve these policies and procedures.

Performance benchmarking and verification

The Committee has overseen the formulation and implementation of corporate responsibility investment procedures, implemented appropriate risk management procedures and recommended strategic targets and objectives for corporate responsibility.



3i's performance is measured against two indices. These are the Dow Jones Sustainability World Index ("DJSI"), a global index which tracks the financial performance of leading companies in terms of corporate sustainability and the Business in the Community ("BitC") Corporate Responsibility Index, which aims to benchmark environmental, ethical and social performance and encourage sustainable development.

3i has again been selected as a constituent of the DJSI during the year and was leader of its industry group on a global basis. DJSI also recognised 3i as one of the best companies on a global basis in respect of our codes of conduct, compliance and anticrime measures. We aim to continue to be included within this Index.

In 2007 we again participated in the annual BitC Corporate Responsibility Index and were included in BitC's "Top 100 Companies that Count". In particular, the integration into the business of our corporate responsibility principles and risk management processes relating to corporate responsibility issues was recognised. We aim to continue to be included within this Index.

We also provide information on our carbon and greenhouse gas emissions to the Carbon Disclosure Project.

Engagement and culture

Our latest comprehensive confidential telephone survey of staff was conducted by Ipsos MORI in January and February 2008 and communicated to staff in March. The survey had a 92% response rate, up from 78% in last year's web-based survey. It included a number of questions that have a proven correlation to employee engagement. The overall employee engagement score of 84% (2007: 87%), remains very positive, with 95% of those taking part saying that they were committed to helping 3i achieve its objectives and 90% saying they would speak highly of 3i. 88% also thought that internal communications were relevant to them.

As part of this survey of its own employees, 3i also undertook a survey of a sample of contract and outsourced staff. Engagement levels for this group of people were positive and consistent with those for our own staff.

Training and development

We are committed to encouraging the continuous development of our staff, with the objective of maximising both their career potential and the overall performance of the business. Emphasis is placed on work-based learning, with the provision of development opportunities supported by appropriate coaching and mentoring. This is supplemented by more formal training programmes, such as workshops, to enhance the board management skills of our investment staff.

In addition, investment staff are required to complete an investment training programme on joining 3i and professional services staff are supported in developing their functional specialisms through external courses, networks and forums. During the year, 527 employees attended a broad range of internal training and development courses.

It is a legal and regulatory requirement that all executives involved in making or managing investment transactions receive anti-money laundering training and periodic refresher training. A programme of training is in place to discharge these obligations.

In addition to the fundamental training required for people to fulfil their roles in a responsible manner, 3i has established a number of programmes to maximise the development of our people and to reinforce the 3i culture. Examples of these include our Global Welcome Days for all new joiners, our Value Management through the Board Courses to enhance board skills, our intensive G10 international programme for 40 high potential senior leaders and the INSEAD leadership course for the leaders of our professional services teams.

Results of the 2008 Employee survey

All 3i staff world-wide were given the opportunity to take part in a confidential telephone survey, conducted by Ipsos MORI in January and February 2008.

Highlights

- A response rate of 92%.
- 3i score ahead of the Ipsos MORI Top Ten norm* on 19 of the 20 norm questions.
- An employee engagement score of 84%.
- High employee advocacy, with 90% saying that they would speak highly of 3i.
- High commitment to 3i's objectives (95%).
- 3i's culture judged as "open and inclusive", "approachable and friendly" and "one where there is good teamwork".

Areas for improvement

- As with any survey of this nature, there were a number of detailed or specific issues relating to particular parts of the business.
- Although six points ahead of the MORI Top Ten norm, only 72% of staff felt that 3i made the best use of their skills and ability.

Action

- The results were communicated to all staff in March.
- All issues relating to specific parts of the business have been communicated and are being followed up.
- Our increased training and development agenda and 3i's continued growth and development will address the first area for improvement.

*The Ipsos MORI Top Ten norm is the average of the most positive 10 responses to each question in the Ipsos MORI normative database. These are regarded as high-performing benchmarks.

Health and Safety

We recognise that the promotion of health and safety at work is an essential responsibility of staff and management at all levels. Simon Ball, as Finance Director, has overall responsibility for the implementation of 3i's health and safety policies and procedures. A Health and Safety Committee, chaired by the Company Secretary, Kevin Dunn, has been established to oversee the application of these policies and procedures and to consider health and safety risks across the business.

The purpose of 3i's health and safety policy is to enable all members of 3i's staff to go about their everyday business at 3i's offices in the expectation that they can do so safely and without risk to their health. High standards of health and safety are applied to staff and sub-contractors and we endeavour to ensure that the health, safety and welfare of our employees, visitors, customers, sub-contractors' staff and the general public are not compromised.

In an endeavour to achieve high standards, we have recently revised our Occupational Health and Safety policy ("OH&S"). The minimum benchmark set for our global OH&S policies is UK legislation, unless country-specific legislation or practice exceeds this level. This year, we will also begin the process of implementing and seeking certification to BS OHSAS 18001:2007, an internationally recognised occupational health and safety management system.

The key objectives of the revised OH&S policy are to identify, evaluate and control risks; to maintain an OH&S management system; to ensure all incidents are reported and investigated in a timely manner; to set annual objectives and targets; and to ensure that 3i employees are informed of and engaged in the process of improving OH&S. Additional details of these policies and procedures can be found on 3i's website at www.3igroup.com.

Our objective is not to have any reportable accidents or incidents. During the year to 31 March 2008, no reportable accidents occurred under UK Health and Safety regulations or under similar regulations outside the UK.

Environment

As a financial services business employing approximately 750 employees world-wide, 3i's direct environmental impact is relatively low.

Our environmental priorities are carbon emissions and waste. In 2007 the Board set an objective to be carbon neutral by 2010. We are currently in a three-year programme of action to deliver this, which involves improving the measurement and modelling of our carbon emissions; reducing the energy intensity of our operations; and investing in carbon offsets.

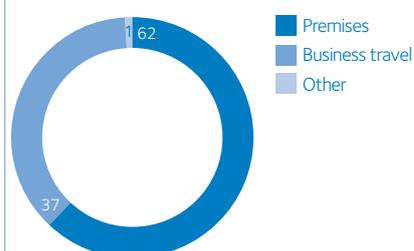
In 2007 we worked with a specialist adviser, the Edinburgh Centre for Carbon Management (ECCM) to expand our emissions monitoring to include all three scopes of the World Business Council for Sustainable Development (WBCSD) greenhouse gas protocol. We also refined our modelling to include updated UK government CO₂ equivalent (CO₂e) factor multipliers. This information has improved our understanding and control of emissions and enabled us to produce our first published Carbon Disclosure Project report.

In 2007, our reported emissions were 9,309 CO₂e (t/yr), up roughly 14% from the 2006 estimate. This increase is largely explained by the implementation of a much more rigorous and broad monitoring process and should be viewed in the context of a business which has grown substantially in the year. The Climate change impact assessment table outlines this amount as a percentage of each emission type.

In the next year we will continue to reduce our energy use and begin to work with a carbon credit provider to identify projects to offset our emissions. We will approach offsetting with a private equity mindset and expect to identify investment opportunities through what we learn in the process.

Climate change impact assessment

Year to 31 March 2008
9,309 CO₂ (tonnes per year)
'equivalent emissions'



ECCM is now an internationally renowned analytical facility for carbon and related eco-metrics with close links with the University of Edinburgh's School of GeoSciences and Imperial College, London. ECCM uses the most up-to-date, country-specific emission factors throughout their assessments, including those developed by the UK Department for the Environment, Food and Rural Affairs.

Procurement

We have developed environmentally conscious policies and procedures relating to the purchasing of goods and services. As far as possible, we will work only with suppliers who support our aim to source products responsibly and we exclude suppliers who use child or forced labour, disregard social legislation and basic health and safety provisions, or wilfully and avoidably damage the environment. We aim to have a collaborative relationship with our suppliers and, wherever possible, when problems arise with a supplier's performance or behaviour, we will work with the suppliers concerned to help them meet our requirements.

"3i was one of our original sponsors, and has been key to our success. While their financial support was useful, their network and the credibility they gave to our effort has been immensely helpful in our rapid expansion."

Doug Miller Founder and Chairman of the European Venture Philanthropy Association



Community and social enterprise

3i has been active for many years in a range of charitable and social enterprise activities. The concept of social enterprise is a natural fit with 3i's approach to supporting businesses. Indeed, over thirty years ago it was a 3i employee who had the idea of forming what is today the Enterprise Education Trust ("EET"). With 3i's financial and other support EET has grown and about 100,000 children each year benefit from its programmes to increase awareness of business and to inspire them to become involved in business. 3i has supported EET every year since formation.

3i was also a founder member of the European Venture Philanthropy Association ("EVPA") which is a charity formed to promote the concept of Venture philanthropy and to develop best practice in this growing area of social enterprise.

3i was also proud to be a founding investor in Bridges Ventures, a privately owned UK venture capital company with a social mission. Bridges was founded in 2002 and has since made equity investments in 24 businesses employing 700 people, almost 200 of whom came out of unemployment. 3i's total commitment to Bridges has been over £2 million.

We focus our charitable activities on the disadvantaged, young people and education in the communities in which we have offices. Charities are supported on the basis of their effectiveness and impact as well as their resonance with our staff.

Two examples of this approach are 3i's support for a series of programmes with The Old Vic theatre in London, one of which, *The Sky's the Limit*, is featured on this page. The other is 3i's support for *The Passage*, a charity focused on the homeless, which is based close to 3i's London office.

An important aspect of our charitable giving, which totalled £454,130 in the year to 21 March 2008 (2007: £429,409), is matching what our staff raise. 3i has actively promoted the UK's Give As You Earn scheme, which is administered by the Charities Aid Foundation. In the year to 31 March 2008, this resulted in donations of £129,733, from the scheme, accounting for 29% of 3i's charitable donations up from 25% in 2007.

We are also supportive of staff who wish to volunteer or become trustees or governors of charities and are happy for them to use the 3i network for the benefit of these charities in a relevant and appropriate way.



The Sky's the Limit at The Old Vic

This 2007 project, aimed at raising the aspirations of UK primary school students, was a result of a long-standing partnership between 3i and The Old Vic Theatre in London. A new play was created from a series of workshops in schools to build confidence and team-work skills. The workshops were facilitated by professional drama educators from The Old Vic and supported by 3i staff. The play, which drew directly on the suggestions and experiences of the young people involved, was then performed to an audience of over 1,000 primary school students at The Old Vic. For many of the young people this was their first visit to a theatre.

In addition to working directly with schools in London and the South East of the UK, a resources pack was created and distributed to over 1,000 schools.

The formal evaluation of the project demonstrated that the project was very successful from the perspectives of students, teachers and the schools. The 3i staff taking part also found it a highly-motivational experience. This evaluation has also been helpful in planning the next programme for 2008, which is focused on multicultural understanding.

Board of Directors and Management Committee



1. Baroness Hogg

Chairman since 2002 and a non-executive Director since 1997. Chairman of the Nominations Committee and the Valuations Committee and a member of the Remuneration Committee. Chairman of Frontier Economics Limited. A director of BG Group plc. Deputy Chairman of the Financial Reporting Council and a Governor of the London Business School. From 1995 to 2002 Chairman of Foreign & Colonial Smaller Companies PLC. From 2003 to 2006 Deputy Chairman of GKN plc. Formerly Head of the Prime Minister's Policy Unit. Aged 62.

2. Oliver Stocken

Deputy Chairman and Senior Independent Director since 2002 and a non-executive Director since 1999. Chairman of the Audit and Compliance Committee and of the trustees of the 3i Group Pension Plan. A member of the Remuneration Committee, the Nominations Committee and the Valuations Committee. Chairman of Home Retail Group plc, Oval Limited and Stanhope Group Holdings Limited and a director of Standard Chartered plc. Formerly Finance Director of Barclays plc. Aged 66.

3. Philip Yea

Chief Executive and executive Director since joining the Company in 2004. A member of the Nominations Committee and the Valuations Committee. A member of the Group's Investment Committee since 2004. A non-executive director of Vodafone Group plc. Formerly Managing Director within the private equity business of Investcorp. A former Finance Director of Diageo plc and former non-executive director of HBOS plc and Manchester United PLC. Aged 53.

4. Simon Ball

Finance Director and member of the Management Committee since joining the Company in 2005. A member of the Valuations Committee and the Group's Investment Committee. A non-executive director of Cable & Wireless plc. Formerly, Director General Finance at the Department for Constitutional Affairs, Group Finance Director of Robert Fleming and Chief Operating Officer (UK) of Dresdner Kleinwort Benson. Aged 48.

5. Willem Mesdag

Non-executive Director since July 2007. A member of the Remuneration Committee and the Nominations Committee. Managing Partner of Red Mountain Capital Partners LLC. Formerly a Partner and Managing Director of Goldman, Sachs & Co. Aged 54.

6. Christine Morin-Postel

Non-executive Director since 2002. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. A director of British American Tobacco PLC and Royal Dutch Shell PLC. Formerly Chief Executive of Société Générale de Belgique, executive Vice-President and member of the executive committee of Suez and a director of Tractebel, Fortis and Alcan, Inc. Aged 61.

7. Michael Queen

Executive Director since 1997. Managing Partner, Infrastructure. Joined 3i in 1987. From 1994 to 1996 seconded to HM Treasury. Appointed Group Financial Controller in 1996 and Finance Director in 1997. A member of the Management Committee and the Group's Investment Committee since 1997. Ceased to be Finance Director on assuming responsibility for Growth Capital investment in 2005. A director of Gardens Pension Trustees Limited, a corporate trustee of the 3i Group Pension Plan. A former non-executive director of Northern Rock plc and past Chairman of the British Venture Capital Association. Aged 46.

8. Sir Robert Smith

Non-executive Director since 2004. Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee and the Nominations Committee. Chairman of Weir Group plc and Scottish & Southern Energy plc. A non-executive director of Aegon UK plc and Standard Bank Group Limited. Formerly a non-executive director of the Financial Services Authority and Bank of Scotland plc, Chief Executive of Morgan Grenfell Asset Management and a member of the Financial Reporting Council. Aged 63.



9. Fred Steingraber

Non-executive Director since 2002. A member of the Audit and Compliance Committee and the Nominations Committee. A non-executive director of Elkay Manufacturing and Diamond Hill Financial Trends Fund. A member of the supervisory board of Continental AG. Chairman Emeritus, and former Chairman and Chief Executive, of AT Kearney, Inc. Formerly a director of Maytag Corporation, Lawter International, Inc, Mercury Finance Corporation, John Hancock Financial Trends Fund and the Chicago Stock Exchange. Aged 69.

10. Robert Swannell

Non-executive Director since September 2006. A member of the Nominations Committee and the Valuations Committee. Vice Chairman, Citi Europe and a member of Citi's Global Investment Banking Operating Committee. A non-executive director of The British Land Company PLC. A member of the Takeover Panel Appeal Board, a member of the Industrial Development Advisory Board of the Department for Business, Enterprise & Regulatory Reform (BERR) and a trustee of the UK Career Academy Foundation. Aged 57.

Other members of Management Committee:

11. Bruce Carnegie-Brown

Managing Partner, Quoted Private Equity. A member of the Management Committee since joining the Company in January 2007 and a member of the Group's Investment Committee. Formerly CEO of Marsh Limited and Head of Debt Capital Markets in Europe and Asia for JP Morgan Chase. A non-executive director of Close Brothers Group plc. Aged 48.

12. Denise Collis

Group HR Director. A member of the Management Committee since joining the Company in 2004. Previously employed by HSBC and Standard Chartered. Before joining 3i was HR Partner at Ernst & Young. A member of the Advisory Boards of Leeds University Business School and the School of Business and Economics at Exeter University. Aged 50.

13. Kevin Dunn

General Counsel and Company Secretary since November 2007. Responsible for the Group's legal, compliance, internal audit and company secretarial functions. Chairman of the Corporate Responsibility Committee. A member of the Management Committee since joining the Company in October 2007. Formerly a Senior Managing Director, running the European Leveraged Finance business for GE's Commercial Finance division after serving as European General Counsel for GE Commercial Finance. Prior to GE Commercial Finance, was a partner at the law firms Travers Smith and Latham & Watkins. Aged 45.

14. Chris Rowlands

Managing Partner, Asia. A member of the Management Committee and the Group's Investment Committee since re-joining the Company in 2002. Formerly Managing Partner, Group Markets. Previously employed by 3i from 1984 to 1996. Formerly a Partner of Andersen and a non-executive director of Principality Building Society. Aged 51.

15. Jonathan Russell

Managing Partner, Buyouts. A member of the Management Committee and the Group's Investment Committee since 1999. Joined 3i in 1986. Chairman-elect of the European Private Equity and Venture Capital Association and formerly Chairman of its Buyout Committee. Aged 48.

16. Jo Taylor

Managing Partner, Venture Capital. A member of the Management Committee and the Group's Investment Committee since 2005. Joined 3i in 1984. Chairman of the British Venture Capital Association Venture Committee and a British Venture Capital Association Council member. Aged 47.

17. Paul Waller

Managing Partner, Funds. A member of the Management Committee since 1999 and a member since 1997 of the Group's Investment Committee which he now chairs. Joined 3i in 1978. Past Chairman of the European Private Equity and Venture Capital Association. Aged 53.

18. Guy Zarzavatdjan

Managing Partner, Growth Capital. A member of the Management Committee since January 2007 and a member of the Group's Investment Committee since June 2006. Joined 3i's Paris office in 1987. Managing Director, Benelux from 1999 to 2002 and Managing Director, France from 2002 until September 2007. Aged 50.

Directors' report – statutory and corporate governance information

This section of the Directors' report contains statutory and corporate governance information for the year to 31 March 2008 ("the year").

Principal activity

3i Group plc is a world leader in private equity. The principal activity of the Company and its subsidiaries ("the Group") is investment. The Company's investment policy is set out on page 9.

Tax and investment company status

The Company is an investment company as defined by section 833 of the Companies Act 2006 and carries on business as an investment trust.

HM Revenue & Customs has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period to 31 March 2007. Since that date the Company has directed its affairs to enable it to continue to be so approved.

Regulation

3i Investments plc, 3i Europe plc and 3i Nordic plc, wholly owned subsidiaries of the Company, are authorised and regulated by the FSA under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities.

Results and dividends

The financial statements of the Company and the Group for the year to 31 March 2008 appear on pages 80 to 105.

Total recognised income and expense for the year was £792 million (2007: £1,075 million). An interim dividend of 6.1p per ordinary share in respect of the year to 31 March 2008 was paid on 2 January 2008. The Directors recommend a final dividend of 10.9p per ordinary share be paid in respect of the year to 31 March 2008 to shareholders on the register at the close of business on 20 June 2008.

The trustee of The 3i Group Employee Trust ("the Employee Trust") has waived (subject to certain minor exceptions) all dividends declared by the Company after 26 May 1994 in respect of shares from time to time held by the Employee Trust (9,881,992 ordinary shares as at 31 March 2008). In addition, as at that date holders of certain performance share awards granted under The 3i Group Discretionary Share Plan in respect of an aggregate of 985,909 ordinary shares, have waived all dividends in relation to those shares for the duration of the three year performance periods relating to the awards.

Operations

The Group operates through a network of offices in Europe, Asia and the US. The Group manages a number of funds established with major institutions and other investors to make equity and equity-related investments predominantly in unquoted businesses in Europe and Asia. It also advises two UK listed investment companies: 3i Infrastructure Limited (established to make investments in infrastructure assets) and 3i Quoted Private Equity Limited (established to acquire influential or controlling stakes in small and mid-cap quoted companies).

Management arrangements

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

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

The administrative services contract between 3i plc and 3i Investments plc may be terminated by either party on three months' notice. The administrative services contracts between 3i plc and other Group companies may be terminated by either party on reasonable notice.

Business review

The Group's development during the year to 31 March 2008, its position at that date and the Group's likely future development are detailed in the Chairman's statement on page 3, the Chief Executive's statement on pages 6 and 7 and the Business review on pages 8 to 43.

Articles of Association

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

Share capital

The issued share capital of the Company as at 31 March 2008 comprised 382,741,094 ordinary shares of 73¹⁹/₂₂p each and 16,566,194 B shares (cumulative preference shares of 1p each), which represented 99.94% and 0.06% respectively of the nominal value of the Company's issued share capital. Further details of the share capital structure of the Company are set out in notes 22 and 26 on pages 100 and 101. During the year, the issued share capital of the Company altered as set out below.

Ordinary shares

Pre-consolidation ordinary share capital movements The issued share capital of the Company as at 1 April 2007 was 461,106,007 ordinary shares of 62⁶⁹/₈₈p each. This increased by 1,794,733 shares to 462,900,740 ordinary shares of 62⁶⁹/₈₈p each in the period from 1 April 2007 to 13 July 2007 on the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans.

Consolidation of ordinary share capital Pursuant to resolutions passed at an Extraordinary General Meeting ("EGM") of the Company on 11 July 2007, the issued ordinary share capital of the Company, of 462,900,740 ordinary shares of 62⁶⁹/₈₈p each, was on 16 July 2007 consolidated into 393,465,629 ordinary shares of 73¹⁹/₂₂p each.

Post-consolidation ordinary share capital movements At the Annual General Meeting ("AGM") on 11 July 2007, the Directors were authorised to repurchase up to 46,111,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 9 May 2007) until the Company's AGM in 2008 or 10 October 2008, if earlier. In the year to 31 March 2008, the Company repurchased and cancelled 12,000,000 ordinary shares of 73¹⁹/₂₂p each (representing 2.99% of the nominal value of the Company's total called-up share capital as at 16 July 2007) pursuant to this authority for an aggregate consideration of £120,352,302.

In the period from 16 July 2007 to 31 March 2008, a total of 1,275,465 ordinary shares of 73¹⁹/₂₂p were issued to the trustee of The 3i Group Share Incentive Plan, on the exercise of options under the Group's executive share option plans and on conversion of €2,000 (nominal) of the €550 million 3i Group 1.375 per cent Convertible Bonds due 2008. Accordingly, between 16 July 2007 and 31 March 2008, the share capital of the Company decreased by 10,724,535 ordinary shares to 382,741,094 ordinary shares of 73¹⁹/₂₂p each.

B shares

B share issue Pursuant to resolutions passed at the EGM on 11 July 2007:

- the authorised share capital of the Company was increased by the creation of an additional 50,000,000 B shares (cumulative preference shares of 1p each); and
- on 16 July 2007, the Company issued 636,473,739 B shares on the basis of 11 new B shares for 8 existing ordinary shares of 62⁶⁹/₈₈p held on the register of members on 13 July 2007.

B share repurchases At the EGM on 11 July 2007, the Directors were authorised to repurchase up to 651,370,020 B shares in the Company until the Company's AGM in 2008. In the year to 31 March 2008, the Company repurchased and cancelled 628,537,525 B shares (representing 2.12% of the nominal value of the Company's total called-up share capital as at 16 July 2007) pursuant to this authority for an aggregate consideration of £798,242,657. These shares were repurchased as part of the Company's arrangements to return capital to shareholders. 16,566,194 B shares remained in issue as at 31 March 2008.

Major interests in ordinary shares

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules) as at 31 March 2008 and 1 May 2008:

	As at 31 March 2008	% of issued share capital	As at 1 May 2008	% of issued share capital	Nature of holding
AXA S.A. and its group of companies	41,760,144	10.91	44,788,612	11.7	Direct and indirect
The Goldman Sachs Group, Inc	22,865,000	5.97	22,865,000	5.97	Indirect
BlackRock Investment Management (UK) Limited	22,737,966	4.93	22,737,966	4.93	Indirect
Lloyds TSB Group Plc	15,745,619	4.11	15,745,619	4.11	Indirect
Legal & General Group plc and/or its subsidiaries	15,554,776	4.01	17,732,765	4.63	Direct
Prudential plc group of companies	11,725,266	3.02	11,725,266	3.02	Direct

Directors' report – statutory and corporate governance information continued

Directors' interests

In accordance with FSA Listing Rule 9.8.6(R)(1), Directors' interests in the shares of the Company (in respect of which transactions are notifiable to the Company under FSA Disclosure and Transparency Rule 3.1.2(R)) as at 31 March 2008 are shown below:

	Ordinary shares	B shares
Baroness Hogg	20,956	–
O H J Stocken	19,651	–
P E Yea	742,360	547,847
S P Ball	304,915	260,534
W Mesdag	–	–
C J M Morin-Postel	6,985	1,872
M J Queen	353,501	176,478
Sir Robert Smith	8,186	–
F G Steingraber	–	–
R W A Swannell	10,350	–

The share interests shown above for each of Mr P E Yea, Mr S P Ball and Mr M J Queen include certain Performance Share awards and Super-performance Share awards which are subject to forfeiture and are detailed in the tables on pages 73 and 74 respectively.

Details of Directors' share options under the Group's executive share option plans are shown in the Directors' remuneration report on page 72.

In the period from 1 April 2008 to 1 May 2008, Mr P E Yea became interested in an additional 45 ordinary shares and Mr S P Ball and Mr M J Queen became interested in an additional 42 ordinary shares each.

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2008 is set out below. The 2008 Notice of AGM contains a special resolution proposing the adoption of new Articles of Association in substitution for the existing Articles of Association. If this resolution is passed, the rights and restrictions attaching to shares will be altered as set out in the form of Articles of Association submitted to the AGM. A summary of the differences between the current and proposed Articles of Association is set out in the 2008 Notice of AGM.

Holders of ordinary shares and B shares enjoy the rights accorded to them under the Memorandum and Articles of Association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as the Company by ordinary resolution or failing such resolution the Board may decide.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. On a poll, holders of ordinary shares are entitled to one vote for each share held. Holders of ordinary shares are entitled to receive the Company's Annual Report and Accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of the B shares or such other shares with preferred rights as may then be in issue.

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

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

There are no restrictions on the transfer of fully paid shares in the Company, save as follows. In the case of uncertificated shares the Board may decline to register a transfer in the circumstances set out in the Uncertificated Securities Regulations or where a transfer is to more than four joint holders. In the case of certificated shares the Board may decline to register any transfer which is not in respect of only one class of share, which is to more than four joint holders, which is not accompanied by the certificate for the shares to which it relates, which is not duly stamped in circumstances where a duly stamped instrument is required, or where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the Company the information required by the notice within the time specified in it. In the

latter circumstances the Company may apply for an order directing that the relevant shares be subject to certain restrictions (including in respect of the ability to exercise voting rights, to transfer the shares validly and, except in the case of a liquidation, to receive the payment of sums due from the Company). In addition, the Directors and the employees of the Company are subject to the Company's share dealing codes, such that approval may be required to deal in the Company's shares. At any time on or after 14 July 2009 or at any time when the criteria for the listing of the B shares under the Listing Rules of the UK Listing Authority are no longer met, the Company may appoint a person to execute a transfer on behalf of all the holders of the B shares in acceptance of an offer, paying the holders of B shares such amount as they would have been entitled to on a winding-up of the Company. Certain restrictions on dealing in and transferability of shares may also from time to time be imposed by laws and regulations.

There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares, save where in accordance with Article 13 of the Company's Articles of Association a restriction notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with.

In the circumstances specified in Article 38 of the Company's Articles of Association the Company may serve a transfer notice on holders of shares. The relevant circumstances relate to: (a) potential tax disadvantage to the Company, including the Company's assets being considered "plan assets" within the meaning of regulations adopted under relevant US legislation, (b) the number of "United States Residents" who own or hold shares becoming 75 or more, or (c) the Company being required to be registered as an investment company under relevant US legislation. The notice would require the transfer of the shares in respect of which the transfer notice has been given and pending such transfer

the rights and privileges attaching to those shares including voting rights would be suspended.

Participants under the 3i Group Share Incentive Plan and certain participants under the 3i Group Performance Share Plan and the 3i Group Deferred Bonus Plan, who beneficially own shares under these schemes which are held by a nominee on their behalf, cannot exercise directly the voting rights attaching to such shares but can instruct the nominee to vote the shares in accordance with their instructions.

In order to be able to attend and vote at a general meeting of the Company in respect of shares in the Company a person must be entered on the register of members in respect of those shares at such time (not being earlier than 48 hours before the meeting) as may be specified by the Company in the notice of general meeting in accordance with Regulation 41 of the Uncertificated Securities Regulations 2001.

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

Debentures

As detailed in notes 20 and 21 on page 99, as at 31 March 2008 the Company had in issue 1.375 per cent Convertible Bonds due 2008, Notes issued under the 3i Group plc £2,000,000 Note Issuance Programme and Notes issued under the 3i Group plc €1,000,000 Euro-Commercial Paper Programme.

Directors' report – statutory and corporate governance information continued

Corporate governance

Throughout the year, the Company complied with the provisions of section 1 of the Combined Code on corporate governance published by the Financial Reporting Council in June 2006.

The Company's approach to corporate governance

The Company has a policy of seeking to comply with established best practice in the field of corporate governance. The Board has adopted core values and Group standards which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and others who engage with the Company. One of the core values communicated within the Group is a belief that the highest standard of integrity is essential in business.

The Board's responsibilities and processes

The Board is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Memorandum and Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company (subject to relevant statutes) on such terms as the Board may decide. The Articles of Association empower the Board to issue and buy back shares, which powers are exercisable in accordance with authorities approved from time to time by shareholders in general meeting. At the AGM in July 2007, shareholders renewed the Board's authority to allot ordinary shares and to buy back ordinary shares on behalf of the Company subject to the limits set out in those resolutions. At the EGM in July 2007, shareholders authorised the Board to allot B shares and to buy back B shares on behalf of the Company, again subject to the limits set out in those resolutions. Details of the authorities which the Board will be seeking at its 2008 AGM are set out in the 2008 Notice of AGM.

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

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

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

- approval of the Group's overall strategy, strategic plan and annual operating budget;
- approval of the Company's half-yearly and annual financial statements and changes in the Group's accounting policies or practices;
- changes relating to the capital structure of the Company or its regulated status;
- major capital projects;
- major changes in the nature of business operations;
- investments and divestments in the ordinary course of business above certain limits set by the Board from time to time;
- adequacy of internal control systems;
- appointments to the Board and Management Committee;
- principal terms and conditions of employment of members of Management Committee; and
- changes in employee share schemes and other long-term incentive schemes.

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

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

Meetings of the Board During the year, there were six meetings of the Board of Directors. The Directors who served throughout the year attended all six meetings. Mr W Mesdag attended the five meetings held since his appointment on 11 July 2007 and Mr F D Rosenkranz attended the one meeting held before his retirement as a Director on 11 July 2007.

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

- the 3i Vision Plan 2008–2012, budget and financial resources;
- the Group's capital structure;
- regular reports from the Chief Executive;
- the recommendations of the Valuations Committee on valuations of investments;
- the establishment of the 3i India Infrastructure Fund;
- a review of the Group's advisory and corporate broking relationships;
- the financial risk management framework;
- the performance of co-investment funds;
- the review by Sir David Walker of disclosure and transparency in the private equity industry;
- independence of non-executive Directors; and
- corporate responsibility initiatives.

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

Performance evaluation During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. The Chairman led the process with the aid of external consultants, The Zygos Partnership, who conducted interviews with all the Directors and members of Management Committee. The Chairman also spoke to each of the Directors and members of Management Committee individually to obtain their views. The Zygos Partnership's written evaluation and the Chairman's own report were subsequently reported formally to the Board and the Chairman also gave feedback to individual Directors. The Senior Independent Director led a review by the Directors of the performance of the Chairman.

The Board performance evaluation included consideration of the overall functioning of the Board with particular focus on strategy, meeting composition, the agenda, Board committees, corporate responsibility, risk and succession issues. The Board found the involvement of external consultants particularly useful in benchmarking the Company's own experience against that of other quoted companies and placing an external perspective on their own views.

During the review, the value of the two strategy sessions held each year, in addition to the regular Board meetings, was endorsed by Directors. The Board identified areas where its working practices could be developed further. In particular, the expansion of the Management Committee with the development of new business lines led the Board to note the value of holding meetings attended by different groups, with some meetings attended by Directors only and others with some or all members of Management Committee present.

The roles of the Chairman and the Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined and has been approved by the Board.

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

The Chief Executive The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive has formed a committee called Management Committee to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises the executive Directors, Mr B N Carnegie-Brown, Ms D R Collis, Mr K J Dunn, Mr C P Rowlands, Mr J B C Russell, Mr A J M Taylor, Mr P Waller and Mr G A R Zarzavatdjan. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Senior Independent Director The Board has appointed Mr O H J Stocken as Senior Independent Director, to whom, in accordance with the Combined Code, concerns can be conveyed.

Directors

The Board comprises the Chairman, six independent non-executive Directors and three executive Directors. Biographical details for each of the Directors are set out on pages 54 and 55. Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball, Mme C J M Morin-Postel, Mr M J Queen, Sir Robert Smith, Mr F G Steingraber and Mr R W A Swannell served throughout the period under review. Mr W Mesdag served as a Director from 11 July 2007. Mr F D Rosenkranz served as a Director until 11 July 2007.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgment to bear on issues of strategy, performance, resources and standards of conduct, and to help the Board provide the Company with effective leadership. They are also expected to ensure high standards of financial probity on the part of the Company and to monitor the effectiveness of the executive Directors.

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

Directors' independence All the non-executive Directors (other than the Chairman, who was independent on appointment) are considered by the Board to be independent for the purposes of the Combined Code. The Board assesses and reviews the independence of each of the non-executive Directors at least annually, having regard to the potential relevance and materiality of a Director's interests and relationships rather than applying rigid criteria in a mechanistic manner. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' report – statutory and corporate governance information continued

Directors' employment contracts Details of executive Directors' employment contracts are set out in the Directors' remuneration report on page 76.

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

During the year the Directors received briefings on corporate responsibility matters, electronic communications with shareholders and legal and regulatory developments, including the Companies Act 2006 (in particular directors' duties) and changes to the Listing Rules for closed-ended investment funds.

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

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

The reappointment of non-executive Directors who have served for more than nine years is subject to annual review.

The Company's Articles of Association provide for:

- (a) the minimum number of Directors to be two and the maximum to be twenty, unless otherwise determined by the Company by ordinary resolution;
- (b) Directors to be appointed by ordinary resolution of the Company's shareholders in general meeting or by the Board;
- (c) Directors appointed by the Board to retire at the first AGM after their appointment and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation (with the Directors to retire being those who have been longest in office since their last appointment or reappointment) at each AGM;
- (d) all Directors to retire at least every three years; and
- (e) shareholders to have the power to remove any Director by special resolution.

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

In accordance with the Articles of Association, at the AGM to be held on 9 July 2008:

- (i) Mr W Mesdag, having been appointed as a Director by the Board since the AGM in 2007, will retire and, being eligible, offer himself for reappointment; and
- (ii) Mr O H J Stocken, Mr S P Ball and Sir Robert Smith will retire by rotation and, being eligible, offer themselves for reappointment as Directors.

The Board's recommendation for the reappointment of Directors is set out in the 2008 Notice of AGM. As previously announced Mr F G Steingraber will retire from the Board at the conclusion of the 2008 AGM.

Directors' indemnities The Company's Articles of Association provide that, subject to the provisions of the Companies Acts, the Directors shall be indemnified against liabilities incurred by them as Directors in defending any proceedings in which judgment is given in their favour, or where they have been acquitted or been granted relief by the court. As permitted by the Company's Articles of Association, the Company has maintained Qualifying Third-Party Indemnity Provisions (as defined under relevant legislation) for the benefit of the Company's Directors throughout the period.

Under the rules of the 3i Group Pension Plan ("the Plan"), the Company has granted an indemnity to the directors of Gardens Pension Trustees Limited (a corporate trustee of the Plan and a wholly-owned subsidiary of the Company) against liabilities incurred as directors of that corporate trustee.

The Board's committees

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

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

Audit and Compliance Committee

The Audit and Compliance Committee comprises Mr O H J Stocken (Chairman), Mme C J M Morin-Postel, Sir Robert Smith and Mr F G Steingraber, all of whom served throughout the period, save for Mr F G Steingraber who served from 11 July 2007. Mr F D Rosenkranz served as a member of the Committee until 11 July 2007. All the members of the Committee are independent non-executive Directors. The Board is satisfied that the Committee Chairman, Mr O H J Stocken, has recent and relevant financial experience.

During the year, there were three meetings of the Committee. The members who served throughout the period attended all meetings. Mr F G Steingraber attended the two meetings held following his appointment and Mr F D Rosenkranz attended the one meeting held before he ceased to be a member.

During the year, the Committee:

- reviewed the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements and received reports on bank covenants, third-party liabilities and off-balance sheet liabilities;
- reviewed and recommended to the Board the accounting disclosures comprised in the half-yearly and annual financial statements of the Company and reviewed the scope of the annual external audit plan and the external audit findings;
- received regular reports from Group Risk Assurance and Audit (the Group's internal audit function), monitored its activities and effectiveness, and agreed the annual internal audit plan;
- received regular reports from Group Compliance (the Group's regulatory compliance function) and Group Risk Management Committee, and monitored their activities and effectiveness;

- oversaw the Company's relations with its external auditors including assessing auditor performance, independence and objectivity, recommending the auditors' reappointment and approving the auditors' fees; and

- met with the external auditors in the absence of management.

Remuneration Committee

The Remuneration Committee comprises Sir Robert Smith (Chairman), Baroness Hogg, Mr W Mesdag, Mme C J M Morin-Postel and Mr O H J Stocken, all of whom served throughout the period, save for Baroness Hogg and Mr W Mesdag who served from 11 July 2007. Mr F D Rosenkranz and Mr F G Steingraber served as members until 11 July 2007. All the members of the Committee are independent non-executive Directors, save for Baroness Hogg who was independent on appointment as Chairman of the Board.

During the year, there were six meetings of the Remuneration Committee. The members who served throughout the period attended all the meetings. Baroness Hogg and Mr W Mesdag attended the five meetings held following their appointment. Mr F D Rosenkranz and Mr F G Steingraber attended the one meeting held before they ceased to be members. Details of the work of the Remuneration Committee are set out in the Directors' remuneration report.

Nominations Committee

The Nominations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr W Mesdag, Mme C J M Morin-Postel, Sir Robert Smith, Mr F G Steingraber and Mr R W A Swannell, all of whom served throughout the period, save for Mr W Mesdag who served from 11 July 2007. Mr F D Rosenkranz served as a member until 11 July 2007. During the year, there were two meetings of the Nominations Committee. The members who served throughout the year attended both meetings and Mr F D Rosenkranz attended the one meeting held before he ceased to be a Director. The terms of reference of the Nominations Committee provide that the

Chairman of the Board shall not chair the Committee when dealing with the appointment of the Chairman's successor.

During the year, the Nominations Committee considered and recommended a candidate for appointment as a non-executive Director of the Company.

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

Valuations Committee

The Valuations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball and Mr R W A Swannell, all of whom served throughout the period. There were three meetings of the Valuations Committee during the year. The members who served throughout the year attended all meetings.

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

The Company Secretary

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

Relations with shareholders

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

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

The Company's major shareholders are offered the opportunity to meet newly-appointed non-executive Directors. During the year such shareholders were given the opportunity to meet Mr W Mesdag following his appointment on 11 July 2007.

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are made by the Chief Executive and the Finance Director. The Chairmen of the Remuneration, Audit and Compliance, and Nominations Committees are available to answer shareholders' questions.

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

The 2007 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

Portfolio management and voting policy

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

Internal control

The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised committees for decision, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Board considers and approves a strategic plan every two years and approves a budget on an annual basis. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

The Group Risk Management Committee is a management committee formed by the Chief Executive and its purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year to 31 March 2008 and up to the date of this report.

The Group Risk Management Committee's activities are supported by the activities of Investment Committee as well as two sub-committees, Financial Risk Committee and Operational Risk Committee. Details of the risk management framework can be found in the Risk management section of the Business review on pages 38 to 43.

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

Policies

- core values, Group standards and Group controls together comprising the Group's high level principles and controls, with which all staff are expected to comply;
- manuals of policies and procedures, applicable to all business units, with procedures for reporting weaknesses and for monitoring corrective action;
- a code of business conduct, with procedures for reporting compliance therewith;

Processes

- appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities;
- a planning framework which incorporates a Board approved strategic plan, with objectives for each business unit;
- formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas;
- the setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learnt;

- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance measures and regular re-forecasting;
- regular treasury reports to the Board, which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to interest and exchange rate movements and record the level of compliance with the Group's funding objectives;
- a Group Compliance function whose role is to integrate regulatory compliance procedures and best practices into the Group's systems;
- well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post-investment reviews;

Verification

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

The internal control system is monitored and supported by a Group Risk Assurance and Audit function which operates on an international basis and reports to management and the Audit and Compliance Committee on the Group's operations. The work of Group Risk Assurance and Audit is focused on the areas of greatest risk to the Group determined on the basis of the Group's risk management process.

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

Employment

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

The Group treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group. The Group also provides financial support to disabled employees who are unable to work, as appropriate to local market conditions.

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

The Group has clear grievance and disciplinary procedures in place, which include comprehensive procedures on discrimination and the Group's equal opportunities policy. The Group also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all staff and their families in the UK.

There are clearly defined staff policies for pay and working conditions. The Group's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the cost element of these rewards remains at an appropriate level.

The Group's remuneration policy is influenced by market conditions and practices in the countries in which it operates. All employees receive a base salary and are eligible for a performance-related bonus. Where appropriate, employees are eligible to participate in Group share schemes to encourage employees' involvement in the performance of the Group. Investment executives may also participate in co-investment plans and carried interest schemes, which allow executives to share directly in the future profits on investments. Employees participate in local state or company pension schemes as appropriate to local market conditions.

Charitable and political donations

Charitable donations made by the Group in the year to 31 March 2008 amounted to £454,130. Excluding the Company's matching of Give As You Earn contributions by staff, charitable donations amounted to £324,397. Of this amount approximately 44% was donated to causes which aim to relieve poverty or benefit the community, or both, approximately 29% was donated to charities which advance education, and approximately 10% was donated to medical charities. Further details of charitable donations are set out in the Corporate responsibility report on pages 44 to 53.

In line with Group policy, no donations were made to political parties during the year.

Directors' report – statutory and corporate governance information continued

Policy for paying creditors

It is the policy of the Group to pay suppliers in accordance with the terms and conditions of the relevant markets in which it operates. Expenses are paid on a timely basis in the ordinary course of business. The Company had no trade creditors outstanding at the year end. 3i plc had trade creditors outstanding at the year end representing on average 19 days' purchases.

Significant agreements

The Company is a party to the following agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid:

- (a) £486 million Revolving Credit Facility Agreement dated 20 September 2005, between 3i Holdings plc, Barclays Capital, Bayerische Landesbank, London branch, Dresdner Kleinwort Wasserstein Limited, HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc, Société Générale, UBS Limited, WestLB AG, London branch and the Company, in relation to the provision of a multi-currency revolving credit facility to 3i Holdings plc and the Company. Under this agreement, the Company would be required to notify Lloyds TSB Bank plc, in its capacity as agent for the banks, within five days of any change of control of the Company. Such notification would open a negotiation period of 50 days (from the date of the change of control) to determine whether Majority Banks (as defined in the agreement) would be willing to continue to make available the facility and, if so, on what terms. Failing agreement and if so required by the Majority Banks, amounts outstanding would be required to be repaid and the facility cancelled. If no such requirement was imposed by the Majority Banks, any dissenting bank could require amounts outstanding to it to be repaid and cease to participate in the facility;
- (b) £150 million Revolving Credit Facility Agreement dated 24 November 2005, between 3i Holdings plc, the Company and Nordea Bank AB (publ) in relation to the

provision of a multi-currency revolving credit facility to 3i Holdings plc and the Company. Under this agreement, the Company would be required to notify Nordea Bank AB (publ) within five days of any change of control of the Company. Such notification would open a negotiation period of 50 days (from the date of the change of control) to determine whether Nordea Bank AB (publ) would be willing to continue to make available the facility and, if so, on what terms. Failing agreement and if so required by Nordea Bank AB (publ), amounts outstanding would be required to be repaid and the facility cancelled;

- (c) Limited Partnership Agreements dated 12 July 2006, between 3i EFV GP Limited, 3i Europartners V Verwaltungs GmbH & Co. KG, the Company and other investors from time to time in relation to the formation of partnerships to carry on the business of investing as the fund known as 3i Eurofund V. Under these agreements, the manager, 3i Investments plc, would be required to notify the investors of any change of control of the Company. If such a change of control occurs before the end of the relevant investment period, the manager's powers to make new investments on behalf of the partnerships would be suspended unless the investors had given consent before the change of control occurred. Where suspension occurs, the investors may consent at any time before the end of the investment period to the resumption of the manager's powers; and
- (d) 3i Group plc €550,000,000 1.375 per cent Convertible Bonds due 2008 (the "bonds"). Condition 6 of the terms and conditions of the bonds sets out the conversion rights of the holders of the bonds and the calculation of the conversion price payable. The conversion price will decrease if a "Relevant Event" occurs. Condition 6(b)(x) sets out the definition of Relevant Event and the consequential adjustment to the conversion price. In summary, a Relevant Event occurs if an offer is made to all (or as nearly as may be practicable all) shareholders

to acquire all or a majority of the issued shares of the Company or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme (as defined)) and (such offer or scheme having become unconditional in all respects) the right to cast more than 50 per cent of the votes which may ordinarily be cast on a poll at a general meeting of the Company has or will become unconditionally vested in the offeror and/or an associate (as defined) of the offeror.

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the profit for the year. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Suitable accounting policies, which follow generally accepted accounting practice and are explained in the notes to the financial statements, have been applied consistently and applicable accounting standards have been followed. In addition, these financial statements comply with International Financial Reporting Standards as adopted by the European Union and reasonable and prudent judgments and estimates have been used in their preparation.

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

- (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors of the Company and their functions are listed on pages 54 and 55.

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing the financial statements.

Auditors' independence and objectivity

Subject to annual appointment by shareholders, auditor performance is monitored on an ongoing basis and formally reviewed every five years, the next review scheduled to be held during the current financial year. The Audit and Compliance Committee reviewed auditor performance during the year and concluded that Ernst & Young LLP's appointment as the Company's auditors should be continued.

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

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

Details of the fees paid to the auditors are disclosed in note 6 to the financial statements on page 90.

Audit information

Pursuant to section 234ZA (2) of the Companies Act 1985, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Appointment of auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of Ernst & Young LLP as the Company's auditors will be put to members at the forthcoming AGM.

By order of the Board

K J Dunn Company Secretary
14 May 2008

Registered Office:
16 Palace Street London SW1E 5JD

Directors' remuneration report

Remuneration Committee

Composition and terms of reference

The Remuneration Committee (the "Committee") comprises independent non-executive Directors, together with Baroness Hogg (Chairman of the Board). Its members during the year to 31 March 2008 (the "year") were Sir Robert Smith (Committee Chairman), Mme C J M Morin-Postel, Mr O H J Stocken, Baroness Hogg (from 11 July 2007), Mr W Mesdag (from 11 July 2007), Mr F D Rosenkranz (until 11 July 2007) and Mr F G Steingraber (until 11 July 2007). The Committee's terms of reference take into account the provisions of the Combined Code on corporate governance and are available on the Company's website.

Activities during the year

The Committee met six times during the year to consider remuneration policy and to determine and consider, on behalf of the Board, the specific remuneration packages and co-investment and carried interest arrangements for executive Directors and other members of Management Committee. The Committee also reviewed the fees payable to the Chairman of the Board. Details of Committee members' attendance at Committee meetings are set out in the Directors' report.

Assistance to the Committee

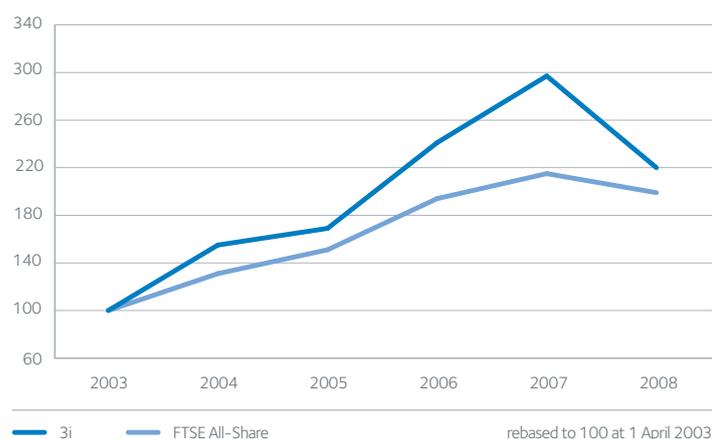
Persons who materially assisted the Committee with advice on Directors' remuneration in the year were: Kepler Associates, external remuneration advisers appointed by the Committee; the Chairman of the Board, Baroness Hogg (until her appointment as a member of the Committee on 11 July 2007); the Chief Executive, Mr P E Yea; and the Group's Human Resources Director, Ms D R Collis. (Ms D R Collis was not appointed by the Committee). Baroness Hogg, Mr P E Yea and Ms D R Collis did not advise the Committee on their own remuneration. Kepler Associates did not provide any other services to the Group during the year.

Background

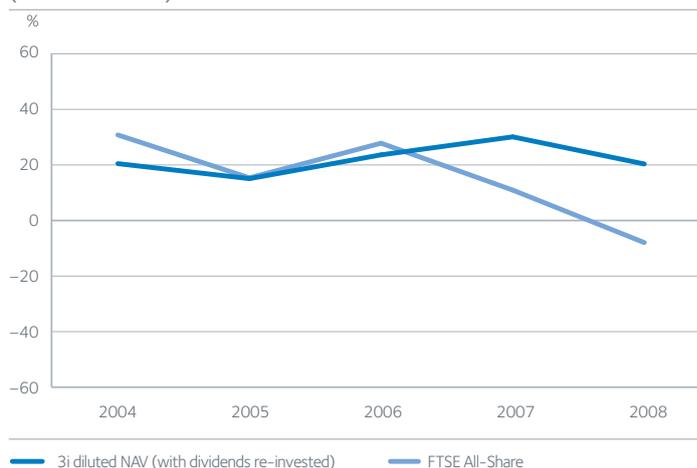
The Company operates in the private equity sector and is a constituent of the FTSE 100 Index. The majority of the Company's competitors are either partnerships of individuals managing funds for investment on behalf of third parties or unquoted subsidiaries of larger banking or financial services groups. In the private equity industry the ability of trained and experienced executives to gain substantial rewards remains and therefore maintaining a remuneration structure to support the recruitment and retention of senior executives continues to be critical. In addition to cash bonuses, it is market practice for investment executives in the private equity sector to be given the opportunity to participate in co-investment and carried interest investment plans which create close alignment of the executives' interests with those of investors in the funds that they manage or advise. The executives put their own money at risk by co-investing and are able to share directly in the future returns on investments, subject normally to a variety of conditions relating to the performance of those investments.

The left hand graph below compares the Company's total shareholder return ("3i TSR") for the five financial years to 31 March 2008 with the total shareholder return of the FTSE All-Share Index. The Directors consider that since the Company invests in a broad range of industrial and commercial sectors, this continues to be the most appropriate index against which to compare the Company's total shareholder return. Additional information is provided by the right hand graph below, which compares percentage changes in the Company's diluted net asset value per share over each of the last five financial years (with dividends re-invested) with the FTSE All-Share total return over the same periods. This has been included as net asset value growth is one of the tests used in the Company's long-term incentive schemes.

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



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



Directors' remuneration policy

The Committee made no changes in Directors' remuneration policy during the year but, following consultation with major shareholders in 2007, revised a number of the targets and limits for executive Directors' remuneration arrangements as explained below.

Non-executive Directors

The Company's policy for the financial year to 31 March 2009 (the "coming year") for non-executive Directors (including the Chairman) continues to be to pay fees which are competitive with the fees paid by other financial services companies of broadly similar UK market capitalisation. Non-executive Directors are not eligible for bonuses, share options, long-term incentives, pensions or performance-related remuneration. The Company does not currently expect its policy on non-executive Directors' remuneration for subsequent financial years to change significantly. Non-executive Directors' fees (other than those of the Chairman, which are determined by the Committee) are regularly reviewed and determined by the Board as a whole, within the limits set by the Company's Articles of Association from time to time, having taken advice from the Committee's remuneration advisers. Details of non-executive Directors' remuneration for the year, which include fees for sitting on or chairing Board committees (where relevant), are set out in the table on page 70. During the year, arrangements were introduced to ensure that non-executive Directors (other than those based in the US) take part of their basic fee in the form of ordinary shares in the Company: for non-executive Directors this amounted to 1,000 shares a year; and for the Chairman 5,000 shares a year, purchased in November each year.

Executive Directors

The Company's policy for the coming year for executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executives of the calibre required. Variable remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) is intended to form a substantial component of total remuneration. When setting executive Directors' remuneration, the Committee is able to evaluate corporate performance on environmental, social and governance issues.

(a) Salaries and bonuses

The Committee is sensitive to wider issues including pay and employment conditions elsewhere in the Group when setting executive Directors' pay levels and takes into account the Company's reward strategy generally, before deciding specific packages for the executive Directors. The average percentage increases in base salaries per annum for members of Management Committee (including executive Directors) and for other executive staff in the UK employed in the period from 31 March 2007 to 31 March 2008 were 5.6% and 11.5% respectively.

Policy for the coming year for:

- (i) the Chief Executive and Finance Director continues to be to pay salaries, and if appropriate discretionary bonuses, which are competitive with those paid by other financial services companies of broadly similar UK market capitalisation. Salary supplements are paid to both, to enable them to make additional pension provision; and
- (ii) executive Directors responsible for investment business, currently only Mr Queen, continues to be to pay salaries, and if appropriate discretionary bonuses, competitive with those paid in the private equity industry.

Executive Directors' discretionary annual bonuses are non-pensionable. Target bonuses for each executive Director are determined by the Committee at the beginning of each year. Bonus awards are assessed against the achievement of corporate, personal and business targets. Following consultation with 3i's major shareholders in 2007 on executive Directors' remuneration, bonus targets were revised for 2007-08. The Chief Executive and Mr Queen had target bonuses of 125% of base salary, whilst the Finance Director had a target bonus of 100% of base salary. Bonuses above target will only be paid to executive Directors for outstanding performance, and the maximum is twice the target bonus. For both the Chief Executive and the Finance Director, any bonus over 100% of base salary will be in shares deferred for two years and for Mr Queen any bonus in excess of 1.5 times target will be in shares deferred for two years. However, this year the approach for Mr Queen was that any bonus in excess of 1 times target (excluding the exceptional bonus referred to in note 1 on page 78) would be paid in deferred shares. The Committee retains discretion to make adjustments to bonus arrangements in appropriate circumstances.

The main measures used to assess corporate performance for the year were: total shareholder return and change in net asset value per share, both in absolute terms and compared with the FTSE All-Share Index; total non market-driven return; and one to three year internal rate of return compared with performance of other companies in the private equity industry. In forming its overall judgment the Committee also took into account a number of more detailed indicators of performance and activity, such as the level of investment, realised profits and costs. The Committee's view, after taking account of the performance measures referred to above, was that bonuses above target although below maximum were appropriate for all three executive Directors. This was in light of strong total return on opening shareholders' funds of 18.6% and the fact the greater part of this came from non market-driven factors. On a three year performance basis, returns outperformed the European private equity industry. Realised profits on the sale of investments of £523 million were high as were levels of investment at £2,160 million and realisation proceeds at £1,742 million. Within the maximum of two times target bonus, combined awards ranged from 1.52 to 1.65 times target, which translated into 1.0 to 1.24 times salary in cash and 0.52 to 0.94 times salary in shares deferred for two years.

Directors' remuneration report continued

(b) Long-term incentives

During the year, long-term incentive arrangements for the Chief Executive and Finance Director consisted of share options, Performance Share awards and Super-performance Share awards under the 3i Group Discretionary Share Plan ("the Discretionary Share Plan").

The Discretionary Share Plan The Discretionary Share Plan is a shareholder-approved executive share plan conforming with the Association of British Insurers' guidelines on dilution limits. The level of annual awards of options, Performance Shares and Super-performance Shares is reviewed each year taking account of market practice, individual performance, the specific circumstances facing the Company and calculations of the fair values of awards. During the year, the Company's policy was that maximum annual awards should be market price options with an aggregate exercise price of six times annual salary and three times salary in respect of Performance Shares and Super-performance Shares. This was subject to an overall limit on the fair value of all share-based awards of 2.5 times salary. During the year awards were made to the Chief Executive and to the Finance Director with face values of approximately six times salary in share options, 1.9 times salary in Performance Shares and 1.1 times salary in Super-performance Shares.

The Committee's remuneration advisers calculate the fair values of share-based awards. For the coming year, these fair values have been calculated by the Committee's remuneration advisers to be 17% of face value for share options, 52% of face value for Performance Share awards and 24.4% of face value for Super-performance Share awards. These fair values are subject to re-calculation in changing market conditions.

The Infrastructure Incentive Plan The Infrastructure Incentive Plan is a part-deferred bonus plan established during the year to provide senior members of the Infrastructure team, including Mr Queen, with incentives aligning the interests of the executives with those of the Group and investors in 3i Infrastructure Limited.

The Company does not currently have any plans to alter its policy on executive Directors' remuneration for the coming year.

Directors' remuneration during the year

	(note 1)	(note 2)	(note 3)	(note 4)	Total remuneration year to 31 March 2008 £'000	Total remuneration year to 31 March 2007 £'000		
	Salary and fees £'000	Salary supplements £'000	Total salary, fees and supplements £'000	Bonus £'000	Deferred share bonus £'000	Benefits in kind £'000		
Executive Directors								
P E Yea	773	249	1,022	790	741	23	2,576	2,152
S P Ball	492	72	564	490	255	2	1,311	1,252
M J Queen	427	–	427	1,270	346	2	2,045	1,357
Non-executive Directors								
Baroness Hogg	290	–	290	–	–	–	290⁸	260
O H J Stocken	113	–	113	–	–	–	113	103
C J M Morin-Postel	64	–	64	–	–	–	64	54
W Mesdag (from 11 July 2007)	42	–	42	–	–	–	42	–
Sir Robert Smith	74	–	74	–	–	–	74	61
F G Steingraber	60	–	60	–	–	–	60	51
R W A Swannell	61	–	61	–	–	–	61	30
Former Directors								
F D Rosenkranz (until 11 July 2007)	15	–	15	–	–	–	15	57
Total	2,411	321	2,732	2,550	1,342	27	6,651	5,377

Notes

- Mr P E Yea and Mr S P Ball received salary supplements to enable them to make additional pension provision.
- Bonuses relate to the year to 31 March 2008 and are expected to be paid in June 2008 save that £750,000 of the bonus shown for Mr M J Queen represented the exceptional bonus described in note 1 on page 78 and paid in July 2007.
- Deferred share bonuses relate to the year to 31 March 2008 and will be paid in shares in the Company, deferred for two years.
- "Benefits in kind" were company car (Mr P E Yea) and health insurance (Mr P E Yea, Mr S P Ball and Mr M J Queen).
- In addition to the salaries and fees shown, executive Directors' retained fees from outside directorships as follows: Mr P E Yea, £105,000 (Vodafone Group plc); Mr S P Ball, £65,000 (Cable & Wireless plc); and Mr M J Queen, £38,923 (Northern Rock plc).
- Amounts payable to former Directors in respect of the year were as follows: Dr P Mihatsch, £71,811 (Chairman of the Company's German Advisory Board); and Mr W J R Govett, £12,000 (as director of Gardens Pension Trustees Limited, a trustee of the 3i Group Pension Plan).
- As at 31 March 2008, executive Directors' salaries were as follows: Mr P E Yea, £790,000 pa plus a salary supplement of £260,000 pa; Mr S P Ball, £490,000 pa plus a salary supplement of £73,500 pa; and Mr M J Queen, £420,000 pa.
- Before the year to 31 March 2008, the Chairman's remuneration had remained unchanged for 2 years.

Share options

Options granted under the Company's executive share option plans entitle executives to acquire ordinary shares, at an exercise price based on market price at the date of grant, from the third until the tenth anniversaries of grant. Vesting of such options is normally subject to the satisfaction of a performance condition, set at the time of the grant, which is calculated over a three-year performance period. Performance conditions for options granted to Directors since 1 April 2001 are summarised below.

Award granted	NAV growth required for minimum vesting	% vesting	NAV growth required for maximum vesting	% vesting	For NAV growth between minimum and maximum vesting levels
Since 31 March 2005	RPI + 3 percentage points	30%	At least RPI + 8 percentage points	100%	The grant vests pro rata
In year to 31 March 2005	RPI + 3 percentage points	50%	At least RPI + 8 percentage points	100%	The grant vests pro rata
Between 1 April 2001 and 31 March 2004	RPI + 5 percentage points	50%	At least RPI + 10 percentage points	100%	The grant vests pro rata

Notes

1 NAV growth refers to annual percentage compound growth in net asset value per share with dividends reinvested, relative to the annual percentage change in RPI.

2 For options granted after 31 March 2004 there is no opportunity for the performance condition to be retested after the three-year performance period.

These performance conditions are based on increases in net asset value per ordinary share to enable a significant proportion of relevant executive Directors' potential remuneration to be linked to an increase in the assets per ordinary share of the Company. The intention is to approximate to the performance conditions attached to carried interest investment plans in the private equity industry whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The performance conditions were chosen as being appropriately demanding in the prevailing market conditions at the time of grant.

Directors' remuneration report continued

Options held by Directors who held office during the year were:

	Date of grant	Held at 1 April 2007	Granted during the year	Exercised during the year	Lapsed during the year	Held at 31 March 2008	Exercise price £	Market price on date of exercise £	Earliest normal exercise date	Expiry date
P E Yea	21.07.04	314,410	–	–	–	314,410	5.73		21.07.07	20.07.14
	21.06.05	259,740	–	–	–	259,740	6.93		21.06.08	20.06.15
	14.06.06	322,966	–	–	–	322,966	8.36		14.06.09	13.06.16
	18.06.07	–	368,129	–	–	368,129	11.74		18.06.10	17.06.17
		897,116	368,129	–	–	1,265,245				
S P Ball	17.05.05	245,022	–	–	–	245,022	6.53		17.05.08	16.05.15
	21.06.05	48,100	–	–	–	48,100	6.93		21.06.08	20.06.15
	14.06.06	200,956	–	–	–	200,956	8.36		14.06.09	13.06.16
	18.06.07	–	230,080	–	–	230,080	11.74		18.06.10	17.06.17
		494,078	230,080	–	–	724,158				
M J Queen	06.07.99	36,002	–	–	–	36,002	7.28		06.07.02	05.07.09
	28.06.00	30,795	–	–	–	30,795	13.75		28.06.03	27.06.10
	27.06.02	184,318	–	–	(52,715)	131,603	6.73		27.06.05	26.06.12
	25.06.03	57,218	–	–	–	57,218	5.68		25.06.06	24.06.13
	23.06.04	89,552	–	–	–	89,552	6.03		23.06.07	22.06.14
	21.06.05	44,733	–	–	–	44,733	6.93		21.06.08	20.06.15
	442,618	–	–	(52,715)	389,903					

The performance condition has not yet been met for those options shown in blue.

Notes

- The fair values of awards made in the year were as follows: Mr P E Yea, £993,600 and Mr S P Ball, £621,000. These fair values have been calculated by the Committee's remuneration advisers using a Monte Carlo simulation based on appropriate assumptions. The fair value of the share options granted during the year was calculated as being 23% of the market value at the date of grant of the shares under option.
- On 16 July 2007, the Company issued 11 B shares for every 8 ordinary shares of 62⁶⁹/₈₈p each existing on 13 July 2007. This was followed by a share consolidation, of 17 new ordinary shares of 73¹⁹/₂₂p for every 20 ordinary shares of 62⁶⁹/₈₈p. This was designed to maintain the price per share, other things being equal, at the same level after the bonus issue of B shares as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in option awards or the exercise price per share and options took effect following the consolidation as options over new ordinary shares of 73¹⁹/₂₂p.
- Options granted before 1 April 2001 were granted under The 3i Group 1994 Executive Share Option Plan (the "1994 Plan") and vested provided a performance condition was met over a rolling three-year period. This required adjusted net asset value per share (after adding back dividends paid during the performance period) at the end of the three-year period to equal or exceed the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in the RPI plus 4%.
- The Committee determines the fulfilment of performance conditions based on calculations which are independently reviewed by the Company's auditors. These performance conditions require net asset value per ordinary share at the beginning and end of the performance period to be calculated on a consistent basis using the same accounting policies. Where accounting policies have altered between the beginning and end of the period, the Committee adjusts the net asset value calculations appropriately to ensure consistency. The Committee also has power to adjust the calculations to reflect circumstances including changes to the capital of the Company. During the period the Committee made appropriate adjustments to reflect the bonus issue of B shares, the consolidation of the Company's share capital and the repurchase by the Company of its own shares.
- The market price of ordinary shares in the Company at 31 March 2008 was 830p and the range during the period 1 April 2007 to 31 March 2008 was 733.5p to 1,231p. No Directors exercised share options during the year. Accordingly, no gains were made by the highest paid director (2007: nil) or by all the Directors in aggregate (2007: £402,467).
- As at 31 March 2008, 16.65 million ordinary shares had been issued or remained issuable in respect of share options granted under Discretionary Share Plans within the past 10 years. This was within the 5% dilution limit for such plans specified in the guidelines issued by the Association of British Insurers. As at 31 March 2008, 18.93 million ordinary shares had been issued or remained issuable in respect of awards granted under "all employee" plans within the past 10 years. This was within the 10% dilution limit for such plans specified in the above mentioned guidelines.

Performance Share and Super-performance Share awards

These are awards of shares subject to a performance condition.

(a) Performance Shares

Awards made during the year will vest based on the outperformance of the growth in value of a shareholding in the Company (with dividends reinvested) for the three-year performance period from grant (averaged over a 60 day period) compared to the growth in value of the FTSE 100 Index (with dividends reinvested). If the growth in value for the Company is below that for the FTSE 100 Index, no part of the award will vest. If growth in value is the same as the Index, 35% of the award will vest and for outperformance above 8% per annum the full award will vest. At outperformance between these two levels of performance, the award will vest on a pro rata basis.

Performance Share awards made before 1 April 2007 vest based on the Company's "percentage rank" by total shareholder return for the three years from grant (averaged over a 60 day period) compared to a comparator group consisting of the FTSE 100 Index constituents at the grant date (adjusted for mergers, demergers and delistings during the performance period). A company's percentage rank is its rank in the comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. At a percentage rank below 50% no shares vest. At a rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata.

These performance conditions were chosen to align the interests of participants and shareholders by linking remuneration to shareholder returns relative to a comparator index of which the Company is a constituent. The Committee determines whether conditions have been met based on calculations prepared by the Committee's remuneration advisers.

Performance Share awards of ordinary shares and related B shares are detailed below.

	Date of award	Held at 1 April 2007		(note 2) Adjustment during the year Ordinary	Granted/issued during the year		Vested during the year		Lapsed during the year		31 March 2008 Ordinary	Held at 31 March 2008 B	Market price on grant £ Ordinary	Date of vesting B
		Ordinary	B		Ordinary	B	Ordinary	B	Ordinary	B				
P E Yea	21.07.04	149,633	176,840	(22,445)	–	205,746	(124,262)	(373,785)	(2,926)	(8,801)	–	–	5.73	31.07.07
	14.07.05	76,563	90,484	(11,485)	–	105,274	–	–	–	–	65,078	195,758	6.98	14.07.08
	20.07.06	36,537	–	(5,481)	–	50,238	–	–	–	–	31,056	50,238	8.60	20.07.09
	30.07.07	–	–	–	124,250	–	–	–	–	–	124,250	–	11.01	30.07.10
		262,733	267,324	(39,411)	124,250	361,258	(124,262)	(373,785)	(2,926)	(8,801)	220,384	245,996		
S P Ball	14.07.05	21,267	25,134	(3,191)	–	29,242	–	–	–	–	18,076	54,376	6.98	14.07.08
	20.07.06	22,734	–	(3,411)	–	31,259	–	–	–	–	19,323	31,259	8.60	20.07.09
	30.07.07	–	–	–	77,656	–	–	–	–	–	77,656	–	11.01	30.07.10
		44,001	25,134	(6,602)	77,656	60,501	–	–	–	–	115,055	85,635		
MJQueen	23.06.04	74,584	88,145	–	–	–	(67,125)	(79,330)	(7,459)	(8,815)	–	–	6.03	09.07.07
		74,584	88,145	–	–	–	(67,125)	(79,330)	(7,459)	(8,815)	–	–		

Notes

- The fair values of Performance Share awards made in the year were as follows: Mr P E Yea, £711,360 and Mr S P Ball, £444,600. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the Performance Shares awarded during the year was calculated as being 52% of the market value at the date of award of the shares subject to the award.
- Ordinary shares held at 1 April 2007 were ordinary shares of 62⁶⁹/_{68p} each. "Adjustment during the year" refers to the change in the number of ordinary shares in the award resulting from the consolidation of the Company's share capital on 16 July 2007. Ordinary shares held at 31 March 2008 were ordinary shares of 73¹⁹/_{22p} each.
- For Performance Share awards granted prior to 1 April 2007 (including related B shares), dividends during the year (including dividends on related B Shares) were re-invested net of tax in further ordinary shares of the Company. These shares, which are in addition to the above Performance Share awards, are required to be held for the remaining vesting period to which they relate, but are not forfeitable. Such shares attributable to Directors during the year were as follows: Mr P E Yea, 1,605 ordinary shares; and Mr S P Ball, 588 ordinary shares.
- The market prices of ordinary shares on the dates of vesting of Mr Yea's and Mr Queen's awards granted in 2004, shown above, were £10.78 and £11.62 respectively.
- Bonus issues of B shares were made on: 17 July 2006 on the basis of one B share for each ordinary share held as at 14 July 2006; and 16 July 2007 on the basis of 11 B shares for every eight ordinary shares held as at 13 July 2007. B shares may, in certain circumstances, be repurchased by the Company at a price of 127p per share. The B shares detailed above are regarded as forming part of the award from which they derived.

Directors' remuneration report continued

(b) Super-performance Shares

Super-performance Shares are subject to a particularly challenging performance condition. The performance condition is measured over a three-year period. If the condition is satisfied, the awards remain subject to a further two-year holding period before they vest.

Annual percentage compound growth in net asset value per share with dividends re-invested, relative to the annual percentage change in RPI	Percentage of the grant vesting
Below RPI + 10 percentage points	0%
At RPI + 10 percentage points	25%
At levels of performance between RPI + 10 percentage points and RPI + 13.5 percentage points the grant will vest pro rata (between 25% and 50% of the grant)	
At RPI + 13.5 percentage points	50%
At levels of performance between RPI + 13.5 percentage points and RPI + 17 percentage points the grant will vest pro rata (between 50% and 100% of the grant)	
At least RPI + 17 percentage points	100%

The performance condition was chosen to add to the mix of long-term incentives a further incentive to achieve outstanding levels of shareholder returns. The Committee will determine whether the condition has been met based on calculations independently reviewed by the Company's auditors.

Super-performance Share awards of ordinary shares and related B shares are detailed below.

	Date of award	Held at 1 April 2007		Adjustment during the year		Granted/Issued during the year		Vested during the year		Held at 31 March 2008		Market price on grant £	Date of vesting
		Ordinary	B	Ordinary	B	Ordinary	B	Ordinary	B	Ordinary	B		
P E Yea	29.11.06	133,261	–	(19,990)	–	183,233	–	–	–	113,271	183,233	9.69	29.11.11
	29.03.07	25,000	–	(3,750)	–	34,375	–	–	–	21,250	34,375	11.44	29.03.12
	13.11.07	–	–	–	–	85,321	–	–	–	85,321	–	10.19	13.11.12
		158,261	–	(23,740)	–	85,321	–	–	–	219,842	217,608		
S P Ball	29.11.06	84,264	–	(12,640)	–	115,863	–	–	–	71,624	115,863	9.69	29.11.11
	29.03.07	15,000	–	(2,250)	–	20,625	–	–	–	12,750	20,625	11.44	29.03.12
	13.11.07	–	–	–	–	52,920	–	–	–	52,920	–	10.19	13.11.12
		99,264	–	(14,890)	–	52,920	–	–	–	137,294	136,488		
M J Queen	29.11.06	82,559	–	(12,384)	–	113,518	–	–	–	70,175	113,518	9.69	29.11.11
		82,559	–	(12,384)	–	113,518	–	–	–	70,175	113,518		

Notes

- The fair values of Super-performance Share awards made in the year were as follows: Mr P E Yea, £212,036 and Mr S P Ball, £131,516. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the Super-performance Shares awarded during the year was calculated as being 24.4% of the market value at the date of award of the shares subject to the award.
- Ordinary shares held at 1 April 2007 were ordinary shares of 62⁹⁹/₁₀₀p each. "Adjustment during the year" refers to the change in the number of shares in the award resulting from the consolidation of the Company's share capital on 16 July 2007. Ordinary shares held at 31 March 2008 were ordinary shares of 73¹⁹/₂₂p each.
- A bonus issue of B shares was made on 16 July 2007 on the basis of 11 B shares for every eight ordinary shares held as at 13 July 2007. B shares may, in certain circumstances, be repurchased by the Company at a price of 127p per share. The B shares detailed above are regarded as forming part of the award from which they derived.

Share Incentive Plan

The HM Revenue and Customs approved Share Incentive Plan is open to eligible UK employees and is intended to encourage employees to invest in the Company's shares. Participants invest up to £125 per month from pre-tax salary in ordinary shares ("partnership shares"). For each partnership share the Company grants two free ordinary shares ("matching shares") which are normally forfeited if employment ceases (other than on retirement or other "qualifying reasons") within three years of grant. Dividends are re-invested in further ordinary shares ("dividend shares"). The extent of executive Directors' participation in the Plan is detailed below.

	Held at 1 April 2007 Partnership shares		Held at 1 April 2007 Matching shares		Held at 1 April 2007 Dividend shares		Held at 31 March 2008 Partnership shares		Held at 31 March 2008 Matching shares		Held at 31 March 2008 Dividend shares	
	Ordinary	B	Ordinary	B	Ordinary	B	Ordinary	B	Ordinary	B	Ordinary	B
P E Yea	381	318	764	639	46	35	466	886	933	1,777	59	98
S P Ball	278	196	557	394	13	4	379	623	757	1,247	26	22
M J Queen	921	956	1,843	1,914	274	267	926	2,154	1,850	4,313	281	575

Notes

- Ordinary shares at 1 April 2007 were ordinary shares of 62⁵⁹/₆₈p each. On 16 July 2007 shares in the plan were consolidated on the same basis as the Company's other issued shares. Ordinary shares at 31 March 2008 were ordinary shares of 73¹⁹/₂₂p.
- In the period from 1 April 2008 to 30 April 2008, Mr P E Yea acquired a further 15 partnership ordinary shares and 30 matching ordinary shares and Mr S P Ball and Mr M J Queen each acquired a further 14 partnership ordinary shares and 28 matching ordinary shares.
- During the year, ordinary shares were awarded under the Plan at prices between 833.7p and 1,204.3p per share and with a weighted average price of 1,026.4p per share.
- Bonus issues of B shares were made on 17 July 2006 on the basis of one B share for each ordinary share within the Share Incentive Plan as at 14 July 2006 and on 16 July 2007 on the basis of 11 B shares for every eight ordinary shares within the Share Incentive Plan as at 13 July 2007. B shares continue to be held in the Plan as detailed above.

The Infrastructure Incentive Plan

The Infrastructure Incentive Plan was established in order to align the remuneration arrangements of infrastructure executives with both the interests of the Group and the objectives of investors in infrastructure assets, who expect to see much of their return in the form of yield. Under the Plan, executives are granted a percentage interest in a bonus pool for each year. Executives are required to invest from their own resources in shares in 3i Infrastructure Limited as a condition of their award. The bonus pool comprises Advisory Fees and Performance Fees received by the Group as investment adviser to 3i Infrastructure Limited. 50% of the participant's share of the bonus pool is paid out shortly after the end of the year to which the fees relate, 25% paid a year later and 25% paid a further year later. During the year, Mr Queen participated in the Plan and has undertaken to invest approximately £1 million of his own money in 3i Infrastructure Limited shares over three years from 13 March 2007.

	Scheme interests, being the percentage of the bonus pool in which the participant is interested				End of period over which interests may vest	Amounts receivable in respect of scheme interests vested in year £'000	Accrued value of scheme interest as at 31 March 2008 £'000
	As at 1 April 2007	Awarded in year	As at 31 March 2008				
M J Queen							
Vintage year 2007-08	Nil	16.4%	16.4%	31.03.10	Nil	1,569	

Note

- The accrued value of the scheme as at 31 March 2008 comprises an estimate of the value of scheme interests which are likely to vest in respect of the year and are expected to become receivable by Mr Queen after that date. The amount which vests will be paid as follows: 50% in July 2008; 25% in July 2009; and 25% in July 2010.

Directors' remuneration report continued

Pension arrangements

The executive Directors are members of the 3i Group Pension Plan, a defined benefit contributory scheme. The Plan provides for a maximum pension of two-thirds of final pensionable salary (limited, in the case of members joining on or after 1 June 1989, to the plan earnings cap) on retirement (normally at age 60). The Plan also provides death-in-service cover of four times final pensionable salary (limited to the earnings cap where this applies), pensions payable in the event of ill health and spouses' pensions on death. Further details of the Plan are set out in note 9 to the financial statements on pages 91 and 92.

		(note 1)	(note 2)		(note 1)	(note 3)	(note 4)			
	Age at 31 March 2008	Complete years of pensionable service at 31 March 2008	Increase in accrued pension (excluding inflation) during the year to 31 March 2008 £'000 pa	Total accrued pension at 31 March 2008 £'000 pa	Director's own contributions (excluding AVCs) paid into the Plan during the year to 31 March 2008 £'000 pa	Increase in accrued pension (including inflation) during the year to 31 March 2008 £'000 pa	Transfer value of the accrued benefits at 31 March 2007 £'000	Difference between transfer values at start and end of the accounting year, less Director's contribution £'000	Transfer value at the end of the year of the increase in accrued benefits during the year, less Director's contribution £'000	
P E Yea	53	3	2.3	8.5	5.6	2.5	145.7	98.5	41.6	33.2
S P Ball	47	3	2.3	7.1	5.6	2.4	99.5	62.8	31.1	25.8
M J Queen	46	20	2.5	221.3	20.0	10.7	2,916.7	2,668.3	228.4	10.1

Notes

- 1 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.
- 2 The pensions shown are deferred pensions payable from age 60.
- 3 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2008 (Actuarial Guidance Note GN11 (version 9.3)).
- 4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2007 (Actuarial Guidance Note GN11 (version 9.2)).
- 5 Additional voluntary contributions are excluded from the above table.
- 6 The pensions shown above become payable at a Normal Retirement Age of 60. On early retirement from active membership of the Plan, there is a discretionary practice of calculating the early retirement pension by applying a reduction factor less than the standard factor, in accordance with Company policy. This is not available to deferred pensioners and no allowance for it is made in the calculations of cash equivalents for deferred pensioners under the Plan.

Directors' service contracts

The Chairman and the non-executive Directors hold office under the Company's Articles of Association and do not have service contracts. Their appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

Company policy is that executive Directors' notice periods should not normally exceed one year. Mr P E Yea, Mr S P Ball and Mr M J Queen have employment contracts with 3i plc dated 27 July 2004, 19 April 2005, and 22 June 1987 respectively. These contracts are terminable on 12 months' notice given by the Company or six months' notice given by the employee. Save for these notice periods the contracts have no unexpired terms. There are no provisions for compensation of executive Directors on early termination save that the Company can elect to give pay in lieu of notice. In the case of Mr Yea, the Company can also elect to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment.

Co-investment plans and carried interest plans

In addition to the Directors' remuneration arrangements, the Company also has in place capital investment plans which permit Mr Queen and other investment executives to co-invest their own money in areas of the business where they work. These plans are designed to follow best practice in the private equity industry. An explanation of how co-investment and carried interest plans operate can be found on pages 120 to 121.

The Company's policy is that awards of carried interest are only normally made to executives who have taken up the opportunity offered to them of participating in co-investment plans. The Chief Executive and the Finance Director are not eligible to participate in these plans.

Mr Queen has interests in the following co-investment and carried interest plans relating to the areas of the business for which he has responsibility. Mr Queen's interests are shown as a percentage of the relevant pools of investments.

(a) Co-investment plans

Amounts invested by Directors in co-investment plans were as follows:

	Invested to 1 April 2007 £'000	Invested during the year £'000	Total invested to 31 March 2008 £'000
M J Queen			
Global Growth Co-invest 2006–08	97	Nil	97

Interests of Directors in co-investment plans during the year were as follows:

	Scheme interests, being the percentage of the relevant pool of investments in which the participant is interested			Amounts receivable in year in respect of scheme interests £'000	Accrued value of scheme interest as at 31 March 2008 £'000
	As at 1 April 2007	Acquired in year	As at 31 March 2008		
M J Queen					
Global Growth Co-invest 2006–08	0.023%	Nil	0.023%	Nil	Nil

Notes

- As explained in last year's report, in recognition of Mr Queen's increased focus on infrastructure investment, his level of participation in the Global Growth 2006–08 carried interest plan was cut by half and he ceased to be eligible to make any further related co-investment in the above plan with effect from 1 April 2007.
- The accrued value of the scheme interest is calculated on the basis set out in note 5 on page 89. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to a payment of the relevant amount to the participant.

Directors' remuneration report continued

(b) Carried interest plans

Interests of Directors in carried interest plans during the year were as follows:

	Scheme interests, being the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits			Amounts receivable in year in respect of scheme interests £'000	Accrued value of scheme interest as at 31 March 2008 £'000
	As at 1 April 2007	Awarded in year	As at 31 March 2008		
M J Queen					
Pan-european Growth Capital 2005-06	2.18%	Nil	2.18%	209	1,155
Infrastructure 2005-06	0.69%	Nil	0.69%	Nil	see note 5
Primary Infrastructure 2005-06	0.53%	Nil	0.53%	Nil	Nil
Global Growth 2006-08	0.34%	Nil	0.34%	Nil	Nil

Notes

- 1 As explained above, in recognition of Mr Queen's increased focus on infrastructure investment, his level of participation in the Global Growth 2006-08 carried interest plan was cut by half, from 0.68% to 0.34% of investments (the figure shown is after this reduction). After consultation with major shareholders, it was decided that he would instead receive an exceptional bonus, part of which is to be deferred over the three years to 2009-10.
- 2 Normally, before any payment to a participant becomes due under the carried interest plans, the Group and funds under its management must first have received back the amount of their investment in the relevant vintage together with a management charge (ranging between 1% and 2.5% per annum) and a hurdle rate of 8% per annum compound on their investment.
- 3 The accrued values of the scheme interests are calculated on the basis set out in note 5 on page 89. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to a payment of the relevant amount to the participant.
- 4 The total carried interest, for all executives eligible to participate in each plan, does not exceed 15% of the relevant pool of investments made over a specific period (usually two years). The proportion of the total carried interest that is allocated to an executive Director depends, amongst other matters, on the size of their investment team.
- 5 No accrued value available. During the year the Infrastructure 2005-06 assets and carried interest plan were transferred to 3i Infrastructure Limited. No Annual Accounts have yet been produced by that company and consequently no accrued value of scheme interest is available.

Audit

The tables in this report (including the notes thereto) on pages 70 to 78 have been audited by Ernst & Young LLP.

By Order of the Board

Sir Robert Smith Chairman, Remuneration Committee
14 May 2008

Independent auditors' report to the members of 3i Group plc

We have audited the Group and parent company financial statements (the "financial statements") of 3i Group plc for the year ended 31 March 2008 which comprise the Consolidated income statement, the Group and parent company Balance sheets, the Group and parent company Cash flow statements, the Group and parent company Reconciliation of movements in equity, the Group and parent company Statement of recognised income and expense and the related notes 1 to 35. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial information, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

We review whether the corporate governance information reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, 3i Group investment policy, Ten largest investments, Forty other large investments, additional financial information and information for shareholders. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008;
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP Registered auditor
London
14 May 2008

Consolidated income statement

for the year to 31 March

	Notes	2008 £m	2007 £m
Realised profits over value on the disposal of investments	2	523	830
Unrealised profits on the revaluation of investments	3	291	323
		814	1,153
Portfolio income			
Dividends		56	81
Income from loans and receivables		149	158
Fees receivable	4	22	14
Gross portfolio return	1	1,041	1,406
Fees receivable from external funds	1	60	37
Carried interest			
Carried interest receivable from external funds	5	60	81
Carried interest and performance fees payable	5	(152)	(142)
Operating expenses	6	(274)	(255)
Net portfolio return		735	1,127
Treasury interest receivable	10	89	91
Interest payable	10	(105)	(100)
Movement in the fair value of derivatives	11	158	(29)
Exchange movements		(44)	(31)
Other income	12	1	1
Profit before tax		834	1,059
Income taxes	13	(6)	(3)
Profit after tax and profit for the year		828	1,056
Earnings per share			
Basic (pence)	29	207.9	220.4*
Diluted (pence)	29	173.4	217.9*

*As restated (note 29).

Statement of recognised income and expense

for the year to 31 March

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Profit for the year		828	1,056	882	1,099
Exchange differences on translation of foreign operations		6	5	–	–
Revaluation of own-use property		(1)	1	(1)	1
Actuarial (losses)/gains	9	(41)	13	–	–
Total recognised income and expense for the year		792	1,075	881	1,100
Analysed in reserves as:					
Revenue	27	111	134	94	88
Capital	27	675	936	787	1,012
Translation reserve	27	6	5	–	–
		792	1,075	881	1,100

Reconciliation of movements in equity

for the year to 31 March

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Total equity at start of year		4,249	4,006	4,020	3,746
Total recognised income and expense for the year		792	1,075	881	1,100
Share-based payments	8	8	9	8	9
Ordinary dividends	30	(70)	(79)	(70)	(79)
Issue of B shares	22	(808)	(700)	(808)	(700)
Issues of ordinary shares	27	19	18	19	18
Buy-back of ordinary shares	27	(120)	(74)	(120)	(74)
Own shares	27	(13)	(6)	–	–
Total equity at end of year		4,057	4,249	3,930	4,020

Balance sheet

as at 31 March

	Notes	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Assets					
Non-current assets					
Investments					
Quoted equity investments	14	889	570	770	498
Unquoted equity investments	14	3,209	2,609	1,050	1,253
Loans and receivables	14	1,918	1,183	513	474
Investment portfolio		6,016	4,362	2,333	2,225
Carried interest receivable		75	83	75	83
Interests in Group entities	15	–	–	3,140	1,766
Property, plant and equipment	16	30	32	8	9
Total non-current assets		6,121	4,477	5,556	4,083
Current assets					
Other current assets	17	49	197	182	168
Derivative financial instruments	19	24	21	24	21
Deposits		44	1,668	25	1,668
Cash and cash equivalents		752	486	611	346
Total current assets		869	2,372	842	2,203
Total assets		6,990	6,849	6,398	6,286
Liabilities					
Non-current liabilities					
Carried interest payable		(110)	(153)	–	(153)
Loans and borrowings	20	(1,509)	(916)	(1,224)	(843)
B shares	22	(21)	(11)	(21)	(11)
Subordinated liabilities	23	(14)	(21)	–	–
Retirement benefit deficit	9	(38)	(1)	–	–
Deferred income taxes	13	(2)	(1)	–	–
Provisions	25	(5)	(7)	–	–
Total non-current liabilities		(1,699)	(1,110)	(1,245)	(1,007)
Current liabilities					
Trade and other payables	24	(166)	(179)	(308)	(191)
Carried interest payable		(140)	(71)	–	(42)
Loans and borrowings	20	(373)	(675)	(373)	(474)
Convertible bonds	21	(433)	(363)	(433)	(363)
Derivative financial instruments	19	(108)	(189)	(108)	(188)
Current income taxes		(5)	(2)	(1)	(1)
Provisions	25	(9)	(11)	–	–
Total current liabilities		(1,234)	(1,490)	(1,223)	(1,259)
Total liabilities		(2,933)	(2,600)	(2,468)	(2,266)
Net assets		4,057	4,249	3,930	4,020
Equity					
Issued capital	26	283	289	283	289
Share premium	27	397	387	397	387
Capital redemption reserve	27	42	27	42	27
Share-based payment reserve	27	21	18	21	18
Translation reserve	27	11	5	–	–
Capital reserve	27	3,026	3,280	2,877	3,013
Revenue reserve	27	359	318	310	286
Own shares	27	(82)	(75)	–	–
Total equity	27	4,057	4,249	3,930	4,020

Baroness Hogg Chairman
14 May 2008

Cash flow statement

for the year to 31 March

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash flow from operating activities				
Purchase of investments	(2,072)	(1,503)	(2,246)	(1,693)
Proceeds from investments	1,824	2,364	1,733	2,458
Interest received	47	68	21	47
Dividends received	56	66	45	30
Portfolio fees received	22	17	–	–
Fees received from external funds	61	37	–	–
Carried interest received	67	76	67	76
Carried interest paid	(154)	(58)	–	–
Operating expenses	(243)	(202)	(108)	(114)
Income taxes paid	(7)	(8)	3	–
Net cash flow from operations	(399)	857	(485)	804
Cash flow from financing activities				
Proceeds from issues of share capital	19	18	19	18
Buy-back of ordinary shares	(120)	(74)	(120)	(74)
Purchase of own shares	(21)	(20)	–	–
Disposal of own shares	8	8	–	–
Repurchase of B shares	(798)	(689)	(798)	(689)
Dividend paid	(70)	(79)	(70)	(79)
Interest received	95	80	88	73
Interest paid	(125)	(101)	(79)	(81)
Proceeds from long-term borrowings	591	1	592	–
Repayment of long-term borrowings	(413)	(2)	(401)	–
Net cash flow from short-term borrowings	(133)	211	(133)	213
Net cash flow from deposits	1,624	(560)	1,643	(616)
Net cash flow from financing activities	657	(1,207)	741	(1,235)
Cash flow from investing activities				
Purchases of property, plant and equipment	(6)	(9)	–	–
Sales of property, plant and equipment	1	2	–	1
Net cash flow from investing activities	(5)	(7)	–	1
Change in cash and cash equivalents	253	(357)	256	(430)
Cash and cash equivalents at start of year	486	847	346	776
Effect of exchange rate fluctuations	13	(4)	9	–
Cash and cash equivalents at end of year	752	486	611	346

Significant accounting policies

3i Group plc (the "Company") is a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements for the year to 31 March 2008 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group"). Separate financial statements of the Company are also presented. The accounting policies of the Company are the same as for the Group except where separately disclosed.

The financial statements were authorised for issue by the Directors on 14 May 2008.

A Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union ("IFRS").

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 1985.

New standards and interpretations not applied

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

		Effective for period beginning on or after
IFRS 2	Amendment – Share-based payments: Vesting conditions and cancellations	1 January 2009
IFRS 8	Operating Segments	1 January 2009
IAS 1	Presentation of Financial Statements (Revised)	1 January 2009
IAS 23	Borrowing Costs (Revised)	1 January 2009
IAS 27	Amendment – Consolidation and Separate Financial Statements	1 July 2009
IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer Loyalty Payments	1 July 2008
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to early adopt.

B Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies relating to the investment portfolio (Section E).

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The income statement of the Company has been omitted from these financial statements in accordance with section 230 of the Companies Act 1985.

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

C Basis of consolidation

(i) Subsidiaries

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

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Group has no interests in associates through which it carries on its business.

(iii) Joint ventures

Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IAS 31 Interests in Joint Ventures, which requires venturer's interests held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change.

D Exchange differences

(i) Foreign currency transactions

Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the date the fair value was determined.

(ii) Financial statements of non-sterling operations

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

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

E Investment portfolio

(i) Recognition and measurement

Investments are recognised and de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of dividends and changes in fair value of equity investments.

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

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

Other investments including loan investments, bonds, fixed income shares and variable funding notes are included as loans and receivables. Loans, bonds and fixed income shares are carried in the balance sheet at amortised cost less impairment. For more detail see the section called Portfolio valuation – an explanation. Variable funding notes are used to invest in quoted debt instruments and are carried in the balance sheet at the value derived from the bid price of the underlying debt instrument taking into account the Group's obligations under the funding contract. The fair value of loans and receivables is not anticipated to be substantially different to the holding value.

All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying 3i Group's valuation policies.

(ii) Income

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

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

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

(c) Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

- Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value.
- Dividends from equity investments are recognised in the income statement when the shareholders' rights to receive payment have been established except to the extent that dividends, paid out of pre-acquisition reserves, adjust the fair value of the equity investment.
- Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

F Fees receivable from external funds

(i) Fund management fees

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

(ii) Advisory fees

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

(iii) Performance fees

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

(iv) Support services fees

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

Significant accounting policies continued

G Carried interest

(i) Carried interest receivable

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

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

(ii) Carried interest payable

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

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

H Property, plant and equipment

(i) Land and buildings

Land and buildings are carried in the balance sheet at fair value less depreciation and impairment. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Any revaluation surplus is credited directly to the Capital reserve in equity except to the extent that it reverses a previous valuation deficit on the same asset charged in the income statement in which case the surplus is recognised in the income statement to the extent of the previous deficit. Any revaluation deficit that offsets a previously recognised surplus in the same asset is directly offset against the surplus in the Capital reserve. Any excess valuation deficit over and above that previously recognised in surplus is charged in the income statement.

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

(ii) Vehicles and office equipment

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

(iii) Assets held under finance leases

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

I Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to insignificant risk of changes in value, net of bank overdrafts.

(ii) Deposits

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

(iii) Bank loans, loan notes and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(iv) Convertible Bonds

Where Convertible Bonds have an issuer cash settlement option in addition to an equity conversion option, the Convertible Bonds are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). Subsequent to initial recognition the conversion option is measured as a derivative financial instrument with the market value of the instrument at period end used as its fair value. The remainder of the proceeds are allocated to the liability component and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

(v) Derivative financial instruments

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

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of financial instruments are taken to the income statement.

(vi) Subordinated liabilities

The Group has some limited recourse funding, which individually finances investment assets, at various fixed rates of interest and whose maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual Group entity to which the funds have been advanced and becomes non-repayable as the assets fail. These liabilities are held in the balance sheet at the amount expected to be repayable based on the underlying assets. Changes in the amounts repayable as a result of changes in the underlying assets are treated as other income in the income statement. Interest payable on subordinated liabilities is charged as it accrues by reference to the principal outstanding and the effective interest rate applicable.

J Employee benefits

(i) Retirement benefit costs

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

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

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

(ii) Share-based payments

In accordance with the transitional provisions of IFRS 1, the requirements of IFRS 2 have been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005. The costs of share-based payments made by the Company in respect of subsidiaries' employees are treated as additional investments in those subsidiaries.

The Group enters into arrangements that are equity-settled share-based payments with certain employees. These are measured at fair value at the date of grant, which is then recognised in the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative changes since the previous balance sheet is recognised in the income statement, with a corresponding entry in equity.

K Other assets

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the income statement. An impairment loss is reversed at subsequent balance sheet dates to the extent that the asset's carrying amount does not exceed its carrying value had no impairment been recognised.

L Other liabilities

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

M Share capital

Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

N Provisions

Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the income statement for the period.

O Income taxes

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit ("temporary differences"), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable differences arising on investments in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control reversal of the temporary difference and it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the financial statements

1 Segmental analysis

Year to 31 March 2008	Buyouts £m	Growth Capital £m	Infrastructure £m	Quoted Private Equity £m	Smaller Minority Investments £m	Venture Capital £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	370	75	6	–	7	65	523
Unrealised profits on the revaluation of investments	245	160	43	(42)	(27)	(88)	291
Portfolio income	116	67	18	–	20	6	227
	731	302	67	(42)	–	(17)	1,041
Fees receivable from external funds	39	2	18	1	–	–	60
Net (investment)/divestment							
Realisation proceeds	858	503	57	18	136	170	1,742
Investment	(788)	(990)	(38)	(182)	(6)	(156)	(2,160)
	70	(487)	19	(164)	130	14	(418)
Balance sheet							
Value of investment portfolio at end of year	2,025	2,366	501	142	244	738	6,016

Year to 31 March 2007	Buyouts £m	Growth Capital £m	Infrastructure £m	Quoted Private Equity £m	Smaller Minority Investments £m	Venture Capital £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	538	235	(15)	–	60	12	830
Unrealised profits on the revaluation of investments	123	269	3	6	(17)	(61)	323
Portfolio income	127	65	27	–	31	3	253
	788	569	15	6	74	(46)	1,406
Fees receivable from external funds	33	3	–	–	–	1	37
Net (investment)/divestment							
Realisation proceeds	1,341	691	5	–	214	187	2,438
Investment	(498)	(482)	(380)	(14)	(2)	(200)	(1,576)
	843	209	(375)	(14)	212	(13)	862
Balance sheet							
Value of investment portfolio at end of year	1,281	1,460	469	20	391	741	4,362

Year to 31 March 2008	UK £m	Continental Europe £m	Asia £m	US £m	Rest of World £m	Total £m
Gross portfolio return	372	559	149	(30)	(9)	1,041
Fees receivable from external funds	37	18	5	–	–	60
Net (investment)/divestment						
Realisation proceeds	783	894	25	40	–	1,742
Investment	(972)	(707)	(171)	(303)	(7)	(2,160)
	(189)	187	(146)	(263)	(7)	(418)
Balance sheet						
Value of investment portfolio at end of year	2,250	2,573	679	497	17	6,016

Year to 31 March 2007	UK £m	Continental Europe £m	Asia £m	US £m	Rest of World £m	Total £m
Gross portfolio return	716	692	25	(27)	–	1,406
Fees receivable from external funds	31	6	–	–	–	37
Net (investment)/divestment						
Realisation proceeds	1,169	1,159	54	56	–	2,438
Investment	(650)	(560)	(259)	(92)	(15)	(1,576)
	519	599	(205)	(36)	(15)	862
Balance sheet						
Value of investment portfolio at end of year	1,792	1,894	373	283	20	4,362

2 Realised profits over value on the disposal of investments

	2008 Unquoted equity £m	2008 Quoted equity £m	2008 Loans and receivables £m	2008 Total £m	2007 Unquoted equity £m	2007 Quoted equity £m	2007 Loans and receivables £m	2007* Total £m
Net proceeds	1,081	199	462	1,742	1,647	145	646	2,438
Valuation of disposed investments	(627)	(162)	(425)	(1,214)	(791)	(146)	(644)	(1,581)
Investments written off	(2)	–	(3)	(5)	(25)	–	(2)	(27)
	452	37	34	523	831	(1)	–	830

*Restated for investment in external funds reclassified from loans and receivables to equity.

3 Unrealised profits on the revaluation of investments

	2008 Unquoted equity £m	2008 Quoted equity £m	2008 Loans and receivables £m	2008 Total £m	2007 Unquoted equity £m	2007 Quoted equity £m	2007 Loans and receivables £m	2007† Total £m
Movement in the fair value of equity	415	64	–	479	431	(37)	–	394
Provisions and loan impairments*	(109)	–	(79)	(188)	(22)	–	(49)	(71)
	306	64	(79)	291	409	(37)	(49)	323

*Included within loan impairments for the Group and Company is an £12 million value reduction for quoted debt instruments.

†Restated for investment in external funds reclassified from loans and receivables to equity.

Provisions have been recognised only on investments where it is considered there is a significant risk of failure. All other value movements are included within the movement in the fair value of equity.

4 Fees receivable

	2008 £m	2007 £m
Fees receivable	45	30
Deal-related costs	(23)	(16)
	22	14

Fees receivable include fees arising from the ongoing management of the portfolio together with fees arising from making investments. Deal-related costs represent fees incurred in the process to acquire an investment.

5 Carried interest

	2008 £m	2007 £m
Carried interest receivable from external funds	60	81
Carried interest and performance fees payable	(152)	(142)
	(92)	(61)

Carried interest receivable represents the Group's share of profits from external funds. Each fund is reviewed at the balance sheet date and income is accrued based on fund profits in excess of the performance conditions within the fund, taking into account cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest payable represents the amount payable to executives from the Group's carried interest schemes. As with carried interest receivable, each scheme is separately reviewed at the balance sheet date, and an accrual made equal to the executives' share of profits once the performance conditions in the scheme have been met.

Notes to the financial statements continued

6 Operating expenses

Operating expenses include the following amounts:

	2008 £m	2007 £m
Depreciation of property, plant and equipment	7	6
Audit fees	1	1
Staff costs (note 7)	178	154

Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP:

	2008 £m	2007 £m
Audit services		
Statutory audit – Company	0.3	0.3
– UK subsidiaries	0.6	0.6
– Overseas subsidiaries	0.4	0.4
Audit-related regulatory reporting	0.1	0.1
	1.4	1.4
Non-audit services		
Investment due diligence	0.4	1.0
Tax services (compliance and advisory services)	0.2	0.1
	2.0	2.5

Non-audit services

These services are services that could be provided by a number of firms, including general consultancy work. Work is allocated to the auditors only if it does not impact the independence of the audit team.

In addition to the above, Ernst & Young LLP has received fees from investee companies. It is estimated that Ernst & Young LLP receive less than 10% of the total investment-related fees paid to the four largest accounting firms.

Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of the auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for audit services to the pension scheme during the year were less than £0.1 million (2007: less than £0.1 million).

7 Staff costs

	2008 £m	2007 £m
Wages and salaries	130	110
Social security costs	20	16
Share-based payment costs (note 8)	12	12
Pension costs (note 9)	16	16
	178	154

The average number of employees during the year was 772 (2007: 765).

Wages and salaries shown above include salaries paid in the year and bonuses relating to the year. These costs are charged against operating expenses.

8 Share-based payments

The Group has a number of share schemes that allow employees to acquire shares in the Company.

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

	2008 £m	2007 £m
Share options*	6	8
Performance shares*	2	1
Share incentive plan	1	1
Deferred bonus shares	3	2
	12	12

*Credited to equity.

8 Share-based payments (continued)

The features of the Group's share schemes are set out below. For legal or regulatory reasons certain participants may be granted "phantom awards" under these schemes, which are intended to replicate the financial effects of a share award without entitling the participant to acquire shares.

Share options

(i) The 3i Group Discretionary Share Plan Options granted after 31 March 2001 were granted under the Discretionary Share Plan and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. For options granted between 1 April 2001 and 31 March 2003 and for options granted to three Directors in June 2003, if the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant. For options granted between 1 April 2003 and 31 March 2004 the performance period is extended only to four years from the date of grant. For options granted after 31 March 2004, there is no opportunity for the performance condition to be re-tested after the three-year performance period.

Options granted between 1 April 2001 and 31 March 2003 were subject to a performance condition that options would vest if the annual compound growth ("ACG") in net asset value per share with dividends re-invested was RPI plus 5%. If this target was achieved then 50% of the options would vest. If the ACG was in excess of RPI plus 10% then the maximum number of shares would vest. Options would vest pro rata if the ACG was between these two amounts. For options granted between 31 March 2003 and 1 April 2004 the target ACG was RPI plus 3% with maximum vesting at RPI plus 6%, except for options granted to three Directors in June 2003 where the target ACG was RPI plus 5% with maximum vesting at RPI plus 10%. For options granted after 1 April 2005 the target ACG was RPI plus 3% with maximum vesting at RPI plus 8%.

(ii) The 3i Group 1994 Executive Share Option Plan Options granted before 31 March 2001 were granted under this plan and are normally exercisable between the third and tenth anniversaries of the date of grant provided that a performance condition has been met over a rolling three-year period. This requires that the adjusted net asset value per share (with dividends re-invested) at the end of the three-year period is equal to or in excess of the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in the RPI plus 4%.

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

	2008 Number of share options	2008 Weighted average exercise price (pence)	2007 Number of share options	2007 Weighted average exercise price (pence)
Outstanding at start of the year	16,894,767	712	25,304,158	745
Granted	1,360,430	1,165	1,411,173	839
Exercised	(4,210,287)	637	(4,059,359)	577
Lapsed	(1,467,797)	764	(5,761,205)	986
Outstanding at end of year	12,577,113	781	16,894,767	712
Exercisable at end of year	6,821,753	735	7,636,530	742

Included within the total number of share options are options over 3 million (2007: 6 million) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

8 Share-based payments (continued)

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

Year ended 31 March	2008 Weighted average exercise price (pence)	2008 Number	2007 Weighted average exercise price (pence)	2007 Number
1998	–	–	505	277,622
1999	628	325,590	630	405,472
2000	819	579,862	884	756,975
2001	1,341	1,024,860	1,312	1,170,432
2002	895	16,761	895	21,026
2003	644	1,132,187	663	3,785,511
2004	571	1,088,933	571	1,414,290
2005	597	2,408,538	599	4,247,510
2006	692	3,312,195	692	3,409,732
2007	839	1,388,851	839	1,406,197
2008	1,165	1,299,336	–	–
	781	12,577,113	712	16,894,767

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

The weighted average share price at the date of exercise during the year was 1,136p (2007: 1,054p). The options outstanding at the end of the year have a weighted average contractual life of 6.07 years (2007: 6.34 years). The cost of share options is spread over the vesting period of three to five years. The weighted average fair value of options granted during the year was 456p (2007: 331p). These fair values were calculated using the Black-Scholes option pricing model.

The inputs to this model were as follows:

	2008	2007
Weighted average share price (pence)	1,195	849
Average expected volatility (%)	29	29
Expected life (years)	8.5	8.5
Average risk-free rate (%)	5.5	4.6
Average expected dividend yield (%)	1.7	1.6

The expected life of the option is based on the best estimate of the Directors following a review of the profile of the award holders. Expected volatility was determined using an average of the implied volatility on grant and historic share price volatility of the preceding 8.5 years. No options have been repriced during the year (2007: nil).

Performance share awards

Performance Share awards made under the 3i Group Discretionary Share Plan during the year were conditional awards of shares to executives which will be transferred to the participant by the 3i Group Employee Trust on vesting. Awards are subject to a performance condition determining whether and to what extent the award will vest. There are two types of awards: conditional Performance Share awards and conditional Super-performance Share awards.

The performance condition for Performance Share awards made during the year is based on the outperformance of the theoretical growth in value of a shareholding in the Company (with dividends reinvested) for the three year performance period from grant (averaged over a 60 day period) compared to the growth in value of the FTSE 100 Index (with dividends reinvested) adjusted for mergers, demergers and delistings over that period. At an outperformance level below 0% per annum no part of the award will vest. At an outperformance level of 0% per annum, 35% of the award will vest and above 8% per annum the full award will vest. At outperformance levels between 0% and 8%, the award will vest on a pro rata basis.

Performance Share awards made before 1 April 2007, were restricted awards which vest based on the Company's "percentage rank" by total shareholder return for the three years from grant (averaged over a 60 day period) compared to a comparator group consisting of the FTSE 100 Index constituents at the grant date (adjusted for mergers, demergers and delistings during the performance period). A company's percentage rank is its rank in the comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. At a percentage rank below 50% no shares vest. At a rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata.

8 Share-based payments (continued)

Super-performance Share awards made during the year were conditional awards of shares which are subject to a particularly challenging performance condition. The performance condition requires annual percentage compound growth in the net asset value per share (with dividends re-invested) over the three-year period of RPI plus 10 percentage points per annum to achieve minimum vesting of 25% of the award; RPI plus 13.5 percentage points per annum to achieve 50% vesting; and RPI plus 17 percentage points per annum to achieve maximum vesting.

The performance condition is measured over a three-year period. If the condition is satisfied, the awards remain subject to a further two-year holding period before they vest.

Super-performance Share awards made before 1 April 2007, were restricted awards which were transferred to the participants by the 3i Group Employee Trust on terms that the shares would be forfeited to the extent the performance condition was not satisfied and in certain other circumstances.

Share Incentive Plan

Eligible UK employees may participate in an Inland Revenue approved Share Incentive Plan intended to encourage employees to invest in the Company's shares. Accordingly it is not subject to a performance condition. During the year participants could invest up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company grants two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than by reason of retirement) within three years of grant. Dividends are re-invested on behalf of participants in further shares (referred to as dividend shares).

Deferred Bonus Share Plan

Certain employees receive an element of their bonus as shares. These shares are held in trust for two years by the trustee of the 3i Group Employee Trust in a nominee capacity. The fair value of the deferred shares is the share price at date of the award.

Employee trust

The Group has established the 3i Group Employee Trust which holds shares in 3i Group plc to meet its obligations under certain share schemes. The share schemes which use this trust are the 3i Group Discretionary Share Plan and the Deferred Bonus Share Plan.

9 Retirement benefit deficit

Retirement benefit plans

(i) **Defined contribution plans** The Group operates a number of defined contribution retirement benefit plans for qualifying employees throughout the Group. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state-managed retirement benefit plan operated by the country's government. The French subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits.

The total expense recognised in profit or loss is £5 million (2007: £4 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date.

(ii) **Defined benefit scheme** The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK. The plan has not been offered to new employees joining 3i since 1 April 2006. The plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the trustees.

The last full actuarial valuation as at 30 June 2004 was updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2008.

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

	2008	2007
Discount rate	6.0%	5.0%
Expected rate of salary increases	6.0%	4.5%
Expected rate of pension increases	3.8%	3.1%
Price inflation	3.5%	3.0%
Expected return on Plan assets	6.2%	6.1%

The post-retirement mortality assumptions used to value the benefit obligation at 31 March 2008 are based on 80% PNA medium cohort with 1.5% pa minimum annual improvement "PA00 medium cohort table" (2007: PA92 medium cohort table). The life expectancy of a male member reaching age 60 in 2028 is projected to be 33.6 years compared to 30.2 years for someone reaching 60 in 2008.

Notes to the financial statements continued

9 Retirement benefit deficit (continued)

The amount recognised in the balance sheet in respect of the Group's defined benefit plan is as follows:

	2008 £m	2007 £m
Present value of funded obligations	515	480
Fair value of Plan assets	(477)	(479)
Retirement benefit deficit	38	1

Amounts recognised in the income statement in respect of the defined benefit plan are as follows:

	2008 £m	2007 £m
Included in operating costs		
Current service cost	10	12
Included in finance costs (note 10)		
Expected return on Plan assets	(30)	(26)
Interest on obligation	24	22
Included in statement of recognised income and expenses		
Actuarial loss/(gain)	41	(14)
	45	(6)

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

	2008 £m	2007 £m
Opening defined benefit obligation	480	472
Current service cost	10	12
Past service cost	1	–
Interest cost	24	22
Actuarial loss/(gain)	12	(15)
Contributions	1	–
Benefits paid	(13)	(11)
Closing defined benefit obligation	515	480

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

	2008 £m	2007 £m
Opening fair value of Plan assets	479	455
Expected returns	30	26
Actuarial loss	(29)	(1)
Contributions	10	10
Benefits paid	(13)	(11)
Closing fair value of Plan assets	477	479

Contributions paid to the Group Pension Plan are related party transactions as defined by IAS 24 Related party transactions.

The fair value of the Plan assets at the balance sheet date is as follows:

	2008 £m	2007 £m
Equities	261	268
Gilts	217	213
Other	(1)	(2)
	477	479

The actual return on Plan assets for the year was £1 million (2007: £25 million).

The Plan assets do not include any of the Group's own equity instruments nor any property in use by the Group. The expected rate of returns of individual categories of Plan assets is determined by reference to individual indices.

9 Retirement benefit deficit (continued)

The history of the Plan is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation	515	480	472	390	355
Fair value of Plan assets	(477)	(479)	(455)	(367)	(272)
Deficit	38	1	17	23	83
Experience adjustments on Plan liabilities	(1)%	2%	–	(4)%	(3)%
Experience adjustments on Plan assets	6%	–	(11)%	(4)%	(3)%

The cumulative actuarial losses recognised in equity are £44 million (2007: losses £4 million).

The Group expects to make regular contributions of approximately £10 million to the Plan in the year to 31 March 2009.

German retirement scheme

Employees in Germany are entitled to a pension based on their length of service. 3i Deutschland GmbH contributes to individual investment policies for its employees and has agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of 3i Deutschland GmbH's investment policies intended to cover pension liabilities is £4 million (2007: £3 million) and the future liability calculated by German actuaries is £5 million (2007: £5 million). The Group carries both the asset and liability in its consolidated financial statements and has recognised an actuarial loss of £1 million (2007: £1 million).

10 Net interest payable

	2008 £m	2007 £m
Treasury interest receivable		
Interest on bank deposits	83	87
Finance income on pension plan	6	4
	89	91
Interest payable		
Interest on loans and borrowings	(86)	(84)
Interest on Convertible Bonds	(4)	(6)
Amortisation of Convertible Bonds	(7)	(7)
Subordinated borrowings	(8)	(3)
	(105)	(100)
Net interest payable	(16)	(9)

11 Movements in the fair value of derivatives

	2008 £m	2007 £m
Forward foreign exchange contracts	–	1
Currency swaps	(1)	–
Interest-rate swaps	(3)	32
Derivative element of Convertible Bonds	162	(62)
	158	(29)

Further information on interest-rate swaps is provided in note 19 and on 3i's Convertible Bonds in note 21. The fair value of the liability due to the equity element of 3i's Convertible Bonds has decreased, mainly due to the decrease in 3i's share price in the year. The resulting profit has been recognised in the income statement.

12 Other income

	2008 £m	2007 £m
Other financing income	1	1
	1	1

13 Income taxes

	2008 £m	2007 £m
Current taxes		
Current year	(5)	(3)
Deferred taxes		
Deferred income taxes	(1)	–
Total income taxes in the income statement	(6)	(3)

Reconciliation of income taxes in the income statement

The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 30% (2007: 30%), and the differences are explained below:

	2008 £m	2007 £m
Profit before tax	834	1,059
Profit before tax multiplied by rate of corporation tax in the UK of 30% (2007: 30%)	(250)	(318)
Effects of:		
Permanent differences	(3)	5
Short-term timing differences	(8)	3
Current period unutilised tax losses	(2)	(7)
Prior period utilised tax losses	18	8
Non-taxable UK dividend income	10	15
Repatriated profits of overseas subsidiaries	–	(4)
Foreign tax	(5)	(3)
Foreign tax credits available for double tax relief	1	4
Realised profits, changes in fair value and impairment losses not taxable	233	294
Total income taxes in the income statement	(6)	(3)

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

Deferred income taxes

	2008 Group balance sheet £m	2007 Group balance sheet £m
Opening deferred income tax liability		
Tax losses	12	2
Unrealised valuation surpluses on investments	–	–
Income in accounts taxable in the future	(13)	(3)
	(1)	(1)
Recognised through income statement		
Tax losses utilised	(7)	10
Valuation surplus now realised	–	–
Income in accounts taxable in the future	6	(10)
	(1)	–
Closing deferred income tax liability		
Tax losses	5	12
Unrealised valuation surpluses on investments	–	–
Income in accounts taxable in the future	(7)	(13)
	(2)	(1)

At 31 March 2008 the Group had tax losses carried forward of £867 million (2007: £588 million). It is unlikely that the Group will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised. These tax losses are available to carry forward indefinitely. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 28% (2007: 30%).

14 Investment portfolio

	Group 2008 Equity investments £m	Group 2008 Loans and receivables £m	Group 2008 Total £m
Opening book value	3,179	1,183	4,362
Additions	1,102	1,058	2,160
Disposals, repayments and write-offs	(791)	(428)	(1,219)
Revaluation	479	–	479
Provision and impairment of loans and receivables	(109)	(79)	(188)
Other movements	238	184	422
Closing book value	4,098	1,918	6,016
Quoted	889	–	889
Unquoted	3,209	1,918	5,127
Closing book value	4,098	1,918	6,016

	Group 2007 Equity investments (as restated*) £m	Group 2007 Loans and receivables (as restated*) £m	Group 2007 Total £m
Opening book value	2,878	1,261	4,139
Additions	968	608	1,576
Disposals, repayments and write-offs	(962)	(646)	(1,608)
Revaluation	394	–	394
Provision and impairment of loans and receivables	(22)	(49)	(71)
Other movements	(77)	9	(68)
Closing book value	3,179	1,183	4,362
Quoted	570	–	570
Unquoted	2,609	1,183	3,792
Closing book value	3,179	1,183	4,362

*Restated for investment in external funds reclassified from loans and receivables to equity.

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Additions to loans and receivables includes £46 million (2007: £79 million) interest received by way of loan notes. A corresponding amount has been included in income from loans and receivables.

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

Notes to the financial statements continued

15 Interests in Group entities

	Company 2008 Equity investments £m	Company 2008 Loans and receivables £m	Company 2008 Total £m
Opening book value	246	1,520	1,766
Additions	31	2,171	2,202
Share of profits	–	360	360
Disposals and repayments	(46)	(1,229)	(1,275)
Impairment	–	(27)	(27)
Exchange movements	–	114	114
Closing book value	231	2,909	3,140

Details of significant Group entities are given in note 35.

	Company 2007 Equity investments £m	Company 2007 Loans and receivables £m	Company 2007 Total £m
Opening book value	239	1,261	1,500
Additions	92	818	910
Share of profits	–	483	483
Disposals and repayments	(85)	(982)	(1,067)
Impairment	–	(1)	(1)
Exchange movements	–	(59)	(59)
Closing book value	246	1,520	1,766

16 Property, plant and equipment

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Land and buildings				
Opening cost or valuation	10	10	9	9
Additions at cost	–	–	–	–
Disposals	–	(1)	–	(1)
Revaluation	(1)	1	(1)	1
Closing cost or valuation	9	10	8	9
Net book amount	9	10	8	9

Depreciation charged in the year on buildings was £0.2 million (2007: £0.1 million).

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Plant and equipment				
Opening cost or valuation	44	57	–	–
Additions at cost	6	8	–	–
Disposals	(1)	(21)	–	–
Closing cost or valuation	49	44	–	–
Opening accumulated depreciation	22	36	–	–
Charge for the year	7	6	–	–
Disposals	(1)	(20)	–	–
Closing accumulated depreciation	28	22	–	–
Net book amount	21	22	–	–

16 Property, plant and equipment (continued)

Assets held under finance leases (all vehicles) have the following net book amount:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cost	1	1	–	–
Aggregate depreciation	–	–	–	–
Net book amount	1	1	–	–

Finance lease rentals are payable as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Within one year	–	1	–	–
Between one and five years	1	–	–	–

The Group's freehold properties and long leasehold properties are revalued at each balance sheet date by professional valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by CBRE and Howell Brooks, independent Chartered Surveyors.

17 Other current assets

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Prepayments	39	44	12	19
Other debtors	10	153	9	38
Amounts due from subsidiaries	–	–	161	111
	49	197	182	168

18 Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Directors' report (pages 38 to 43). This note provides further detail on financial risk management, cross-referring to the Directors' report where applicable, and includes quantitative data on specific financial risks.

The Group invests in approximately 50 new investment opportunities per annum and each investment is subject to a full risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework.

Capital structure

The capital structure of the Group consists of net debt, including cash held on deposit, and shareholders' equity. The type and maturity of the Group's borrowings are analysed further in note 20 and the Group's equity is analysed into its various components in note 27. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow 3i to operate effectively in the marketplace and sustain future development of the business. Strong realisations from the investment portfolio in recent years have led to the return of capital to shareholders. This has been achieved through the issue and repurchase of B shares (2008: £808 million; 2007: £700 million), on-market share purchases (2008: £120 million; 2007: £74 million; 2006: £222 million) and a special dividend (2006: £245 million).

	Group 2008 £m	Group 2007 £m
Cash, deposits and derivative financial assets	820	2,175
Borrowings and derivative financial liabilities	(2,458)	(2,174)
Net (debt)/surplus	(1,638)	1
Total equity	4,057	4,249
Gearing (net debt/total equity)	40%	0%

Capital is managed on a consolidated basis and the gearing KPI is only applicable to the Group, not the Company.

Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory obligations. No significant constraints have been identified in the past and the Group has been able to distribute profits in a tax-efficient manner. The Company operates so as to qualify as a UK Investment Trust for tax purposes which necessitates its investment in subsidiaries remaining below 15% of the Company's investment portfolio.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm that is regulated by the FSA. The last submission to the FSA demonstrated a significant consolidated capital surplus in excess of the FSA's prudential rules. Since 1 January 2008 the Group's capital requirement has been amended following approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of 3i Investments plc. Although this has increased the regulated capital requirement, there remains a significant regulatory capital surplus.

Financial risks

Concentration risk

The Group's exposure to and mitigation of concentration risk is explained within "investment risks" (page 41) in the Directors' report. Quantitative data regarding the concentration risk of the portfolio across economic sectors and geographies can be found in the additional portfolio and financial information section (pages 110 to 115).

Credit risk

The Group is subject to credit risk on its loans, receivables, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with a credit rating of AA or better. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due it is believed that the risk of default is small and that capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the Group's investment. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Partial provisions, or "loan impairments", are made when the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall. Further information on how credit risk is managed is given on page 42 of the Directors' report. In accordance with IFRS7, the amounts shown as past due represent the total credit exposure, not the amount actually past due.

	Group 2008 not past due £m	Group 2008 up to 12 months past due £m	Group 2008 more than 12 months past due £m	Group 2008 Total £m	Company 2008 not past due £m	Company 2008 up to 12 months past due £m	Company 2008 more than 12 months past due £m	Company 2008 Total £m
Loans and receivables before provisions and impairments	1,772	174	128	2,074	432	83	108	623
Provisions on investments that have failed or expected to fail in the next 12 months	(44)	(1)	(40)	(85)	(6)	(1)	(37)	(44)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment*	(4)	(31)	(36)	(71)	(9)	(27)	(30)	(66)
Total	1,724	142	52	1,918	417	55	41	513

	Group 2007 not past due £m	Group 2007 up to 12 months past due £m	Group 2007 more than 12 months past due £m	Group 2007 Total £m	Company 2007 not past due £m	Company 2007 up to 12 months past due £m	Company 2007 more than 12 months past due £m	Company 2007 Total £m
Loans and receivables before provisions and impairments	1,217	91	91	1,399	471	87	86	644
Provisions on investments that have failed or expected to fail in the next 12 months	(61)	(6)	(42)	(109)	(53)	(3)	(42)	(98)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment	(78)	(8)	(21)	(107)	(48)	(5)	(19)	(72)
Total	1,078	77	28	1,183	370	79	25	474

*Included within impairments not past due for the Group and Company is an £12 million value reduction for quoted debt instruments.

Notes to the financial statements continued

18 Financial risk management (continued)

Movements on loan impairments and provisions are shown below.

	Group Provisions £m	Group Impairments £m	Group Total £m	Company Provisions £m	Company Impairments £m	Company Total £m
Balance as at 31 March 2006	(189)	(179)	(368)	(169)	(150)	(319)
Released in year	85	116	201	76	96	172
Charged in year	(5)	(44)	(49)	(5)	(18)	(23)
Balance as at 31 March 2007	(109)	(107)	(216)	(98)	(72)	(170)
Released in year	65	74	139	60	30	90
Charged in year	(41)	(38)	(79)	(6)	(24)	(30)
Balance as at 31 March 2008	(85)	(71)	(156)	(44)	(66)	(110)

Liquidity risk

Further information on how liquidity risk is managed is provided in the Directors' report (page 42). The table below analyses the maturity of the Group's contractual liabilities.

	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due greater than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due greater than 5 years £m	Company Total £m
As at 31 March 2008										
Gross commitments:										
Fixed loan notes	39	39	165	1,198	1,441	39	39	165	1,198	1,441
Variable loan notes	131	114	437	–	682	131	114	437	–	682
Committed multi-currency facility	19	19	385	–	423	4	4	89	–	97
Convertible Bond 2008 €550 million 1.375%	437	–	–	–	437	437	–	–	–	437
Euro commercial paper	267	–	–	–	267	267	–	–	–	267
Derivative financial instruments	–	–	398	258	656	–	–	398	258	656
Equity element of Convertible Bond	6	–	–	–	6	–	–	–	–	6
Carried interest payable within one year	140	–	–	–	140	–	–	–	–	–
Total	1,039	172	1,385	1,456	4,052	884	157	1,089	1,456	3,586

	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due greater than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due greater than 5 years £m	Company Total £m
As at 31 March 2007										
Gross commitments:										
Fixed loan notes	251	37	110	1,234	1,632	251	37	110	1,234	1,632
Variable loan notes	213	98	639	–	950	8	98	639	–	745
Committed multi-currency facility	3	7	159	–	169	1	4	80	–	85
Convertible Bond 2008 €550 million 1.375%	5	364	–	–	369	5	364	–	–	369
Euro commercial paper	265	–	–	–	265	265	–	–	–	265
Derivative financial instruments	276	32	200	431	939	66	32	188	431	717
Equity element of Convertible Bond	–	156	–	–	156	–	156	–	–	156
Carried interest payable within one year	71	–	–	–	71	–	–	–	–	–
Total	1,084	694	1,108	1,665	4,551	596	691	1,017	1,665	3,969

Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio but the valuation and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

(i) Interest rate risk

Further information on how interest rate risk is managed is provided in the Directors' report (page 42). The direct impact of a movement in interest rates is relatively small. An increase of 100 Basis Points would lead to an approximate exposure of £4 million (2007: £5 million) for the Group and £1 million (2007: £5 million) for the Company. This exposure arises principally from changes in interest payable and receivable on floating rate and short-term instruments and changes in the fair value of interest rate derivatives held at the year end. In addition the Group and Company have indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations.

18 Financial risk management (continued)**(ii) Currency risk**

Further information on how currency risk is managed is provided in the Directors' report (page 42). The Group's net assets in Euro, US dollar, Swedish krona, Indian rupee, Swiss franc and all other currencies combined is shown in the table below. This sensitivity analysis is based on the sensitivity of the Group and Company's monetary assets to movements in foreign currency exchange rates. The Group hedges currency on a consolidated basis.

	Group 2008 Sterling £m	Group 2008 Euro £m	Group 2008 US dollar £m	Group 2008 Swedish krona £m	Group 2008 Indian rupee £m	Group 2008 Swiss franc £m	Group 2008 Other £m	Group 2008 Total £m
Net assets	4,077	(24)	91	(14)	(67)	(6)	–	4,057
Sensitivity analysis								
Assuming a 5% movement in exchange rates against sterling:								
Impact on exchange movements in the income statement	n/a	10	25	(1)	(5)	–	n/a	29
Impact on the translation of foreign operations in statement of recognised income and expense	n/a	(17)	(19)	–	–	–	n/a	(36)
Total	n/a	(7)	6	(1)	(5)	–	n/a	(7)

	Company 2008 Sterling £m	Company 2008 Euro £m	Company 2008 US dollar £m	Company 2008 Swedish krona £m	Company 2008 Indian rupee £m	Company 2008 Swiss franc £m	Company 2008 Other £m	Company 2008 Total £m
Net assets	4,125	203	238	(89)	(281)	(184)	(82)	3,930
Sensitivity analysis								
Impact on exchange movements in the income statement assuming a 5% movement in exchange rates against sterling:	n/a	2	8	(5)	(15)	(10)	n/a	(20)

	Group 2007 Sterling £m	Group 2007 Euro £m	Group 2007 US dollar £m	Group 2007 Swedish krona £m	Group 2007 Indian rupee £m	Group 2007 Swiss franc £m	Group 2007 Other £m	Group 2007 Total £m
Net assets	4,284	(121)	86	(4)	–	1	3	4,249
Sensitivity analysis								
Assuming a 5% movement in exchange rates against sterling:								
Impact on exchange movements in the income statement	n/a	(20)	14	(1)	(4)	–	n/a	(11)
Impact on the translation of foreign operations in statement of recognised income and expense	n/a	14	(6)	–	–	–	n/a	8
Total	n/a	(6)	8	(1)	(4)	–	n/a	(3)

	Company 2007 Sterling £m	Company 2007 Euro £m	Company 2007 US dollar £m	Company 2007 Swedish krona £m	Company 2007 Indian rupee £m	Company 2007 Swiss franc £m	Company 2007 Other £m	Company 2007 Total £m
Net assets	4,326	(127)	136	(92)	(99)	(130)	6	4,020
Sensitivity analysis								
Impact on exchange movements in the income statement assuming a 5% movement in exchange rates:	n/a	(12)	2	(5)	(5)	(7)	n/a	(27)

(iii) Price risk – market fluctuations

Further information about the management of price risk, which arises principally from quoted and unquoted equity investments, is provided in the Directors' report (page 42). A 5% change in the fair value of those investments would have the following direct impact on the income statement:

	2008 Quoted equity £m	2008 Unquoted equity £m	2008 Total £m	2007 Quoted equity £m	2007 Unquoted equity £m	2007 Total £m
Group	44	160	204	29	130	159
Company	39	53	92	25	63	88

In addition, other price risk arises from carried interest balances and the derivative element of the Convertible Bonds.

Notes to the financial statements continued

19 Derivative financial instruments

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Current assets				
Forward foreign exchange contracts	5	1	5	1
Currency swaps	8	8	8	8
Interest rate swaps	11	12	11	12
	24	21	24	21
Current liabilities				
Forward foreign exchange contracts	–	(1)	–	(2)
Currency swaps	(79)	(10)	(79)	(10)
Interest rate swaps	(23)	(22)	(23)	(20)
Derivative element of Convertible Bonds	(6)	(156)	(6)	(156)
	(108)	(189)	(108)	(188)

Forward foreign exchange contracts and currency swaps

The Group uses forward exchange contracts and currency swaps to minimise the effect of fluctuations in the value of the investment portfolio from movement in exchange rates. Foreign currency interest-bearing loans and borrowings are also used for this purpose.

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments, as defined in IAS 39, and consequently all changes in fair value are taken to the income statement.

At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts is as follows:

	2008 £m	2007 £m
Currency swaps	2,322	1,455
Forward foreign currency contracts	346	174
	2,668	1,629

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its interest-bearing loans and borrowings. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments, as defined in IAS 39, and consequently all changes in fair value are taken to the income statement.

At the balance sheet date, the notional amount of outstanding interest rate swaps is as follows:

	2008 £m	2007 £m
Fixed rate to variable rate	–	10
Variable rate to fixed rate	510	687
Variable rate to variable rate	150	200
	660	897

The Group does not trade in derivatives. In general, derivatives held hedge specific exposures and have maturities designed to match the exposures they are hedging. It is the intention to hold both the financial instruments giving rise to the exposure and the derivative hedging them until maturity and therefore no net gain or loss is expected to be realised.

The derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. Movements in the fair value of derivatives are included in the income statement.

20 Loans and borrowings

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Loans and borrowings are repayable as follows:				
Within one year	373	675	373	474
In the second year	92	90	92	90
In the third year	394	81	109	81
In the fourth year	398	145	398	72
In the fifth year	25	–	25	–
After five years	600	600	600	600
	1,882	1,591	1,597	1,317

Principal borrowings include:

	Rate	Maturity	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2007	–	200	–	200
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£400 million notes (public issue)	5.750%	2032	400	400	400	400
Other			50	–	50	–
Variable rate						
£200 million notes (public issue)	LIBOR+0.100%	2007	–	200	–	–
€500 million notes (public issue)	EURIBOR+0.100%	2012	398	–	398	–
Other			195	171	195	171
			1,243	1,171	1,243	971
Committed multi-currency facilities						
£486 million	LIBOR+0.210%	2010	200	–	–	–
£150 million	LIBOR+0.175%	2010	169	145	85	72
			369	145	85	72
Other						
Other borrowings			–	8	–	8
Euro commercial paper			269	266	269	266
Finance lease obligations			1	1	–	–
			270	275	269	274
Total for loans and borrowings			1,882	1,591	1,597	1,317

The drawings under the committed multi-currency facilities are repayable within one year but have been classified as repayable at the maturity date as immediate replacement funding is available until those maturity dates. The undrawn commitment fee on the £150 million committed multi-currency facility is 0.05%. The margin on this facility increases to 0.20% if the drawn amount is greater than 50% of the facility. The £169 million liability on the £150 million multi-currency facility represents a two billion Swedish Krona drawing being re-translated at the year end exchange rate. The undrawn commitment fee on the £486 million committed multi-currency facility is 0.08%. The margin on this facility increases to 0.235% if the drawn amount is between 33% and 66% of the facility, and to 0.26% if the drawn amount is greater than 66% of the facility.

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 £1,840 million (2007: £1,626 million).

21 Convertible Bonds

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Opening balance	363	365	363	365
Amortised during the year	7	7	7	7
Exchange movements	63	(9)	63	(9)
Closing balance	433	363	433	363

On 1 August 2003 the Company issued €550 million 1.375% 5-year convertible bonds. The 3i Group plc share price on issue was 635p and at 31 March 2008 was 830p (2007: 1,136p). The initial conversion price was £8.41, which has subsequently been adjusted to £8.53 following share consolidations implemented by the Company in the period 2005–2007. Interest is payable on the bonds on 12 January and 12 July each year.

On issue, part of the proceeds was recognised as a derivative financial instrument and the remaining amount recognised as a loan held at amortised cost with an effective interest rate of 4.1%. The fair value of the loan at 31 March 2008 was £433 million (2007: £363 million).

Notes to the financial statements continued

22 B shares

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Opening balance	11	–	11	–
Issued	808	700	808	700
Repurchased and cancelled	(798)	(689)	(798)	(689)
Closing balance	21	11	21	11

On 16 July 2007, the Company issued B shares with a nominal value of 1p on the basis of 11 B shares for eight existing 62⁶⁹/_{88p} ordinary shares. The B shares carry the right to a cumulative preferential dividend at a rate per annum of 3.75% based on a notional value of 127p per B share and an entitlement to a priority payment equal to 127p per B share, plus any accrued but unpaid dividend, from the assets of the Company on a winding up, but will not ordinarily carry voting rights in the Company.

The Company repurchased and cancelled in aggregate 628,537,525 B shares on 23 July 2007 and 20 August 2007 at a price of 127p per share. The Company expects to make future purchase offers in July 2008 and July 2009 at 127p per B share and has the right to repurchase all outstanding B shares on or after 14 July 2009.

23 Subordinated liabilities

	Group 2008 £m	Group 2007 £m
Subordinated liabilities are repayable as follows:		
After five years	14	21

Subordinated liabilities comprise limited recourse funding from Kreditanstalt für Wiederaufbau (“KfW”), a German federal bank. Repayment of the funding, which individually finances investment assets, is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the German subsidiaries to which these funds have been advanced and in certain circumstances become non-repayable should assets fail.

24 Trade and other payables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Other accruals	166	179	67	22
Amounts due to subsidiaries	–	–	241	169
	166	179	308	191

25 Provisions

	Group 2008 Property £m	Group 2008 Redundancy £m	Group 2008 Total £m
Opening balance	7	11	18
Charge for the year	2	6	8
Utilised in the year	(2)	(10)	(12)
Closing balance	7	7	14

	Group 2007 Property £m	Group 2007 Redundancy £m	Group 2007 Total £m
Opening balance	5	5	10
Charge for the year	4	11	15
Utilised in the year	(2)	(5)	(7)
Closing balance	7	11	18

The provision for redundancy relates to staff reductions announced prior to 31 March 2008. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease, and have been provided for to the extent they are not covered by income from subleases. The leases covered by the provision have a remaining term of up to eight years.

26 Issued capital

	2008 Number	2008 £m	2007 Number	2007 £m
Authorised				
Ordinary shares of 62 ⁶⁹ / ₈₈ p	–	–	653,031,456	410
Ordinary shares of 73 ¹⁹ / ₂₂ p	555,076,720	410	–	–
B shares of 1p	660,000,000	7	610,000,000	6
Unclassified shares of 10p	1,000,000	1	1,000,000	–

	2008 Number	2008 £m	2007 Number	2007 £m
Issued and fully paid				
Ordinary shares of 53¹/₈p				
Opening balance	–	–	550,556,502	292
Issued on exercise of share options and under the 3i Group Share Incentive Plan	–	–	603,757	–
Share consolidation	–	–	(551,160,259)	(292)
Shares cancelled	–	–	–	–
Closing balance	–	–	–	–

	2008 Number	2008 £m	2007 Number	2007 £m
Issued and fully paid				
Ordinary shares of 62⁶⁹/₈₈p				
Opening balance	461,106,007	289	–	–
Issued on exercise of share options and under the 3i Group Share Incentive Plan	1,794,733	2	2,169,634	2
Share consolidation	(462,900,740)	(291)	466,366,373	292
Shares cancelled	–	–	(7,430,000)	(5)
Closing balance	–	–	461,106,007	289

During the period 1 April 2007 to 15 July 2007, the Company issued shares for cash on the exercise of share options at various prices from 512p to 1,012p per share.

On 16 July 2007, the Company consolidated its issued share capital on the basis of 17 ordinary shares of 73¹⁹/₂₂p each for every 20 ordinary shares of 62⁶⁹/₈₈p each held. This occurred immediately following the issue of the B shares.

	2008 Number	2008 £m	2007 Number	2007 £m
Issued and fully paid				
Ordinary shares of 73¹⁹/₂₂p				
Opening balance	–	–	–	–
Share consolidation	393,465,629	291	–	–
Issued on exercise of share options, conversion of bonds, and under the 3i Group Share Incentive Plan	1,275,465	1	–	–
Shares cancelled	(12,000,000)	(9)	–	–
Closing balance	382,741,094	283	–	–

During the period 16 July 2007 to 31 March 2008, the Company issued shares for cash on the exercise of share options at various prices from 470p to 895p per share.

27 Equity

Year to 31 March 2008	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Group									
Opening balance	289	387	27	18	5	3,280	318	(75)	4,249
Total recognised income and expense					6	675	111		792
Share-based payments				8					8
Release on exercise/forfeiture of share options				(5)		(1)		6	–
Issue of ordinary shares	3	16							19
Dividends paid							(70)		(70)
Share buy-backs	(9)		9			(120)			(120)
Issue of B shares		(6)	6			(808)			(808)
Own shares								(13)	(13)
Closing balance	283	397	42	21	11	3,026	359	(82)	4,057

Notes to the financial statements continued

27 Equity (continued)

Year to 31 March 2007									
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	Own shares £m	Total equity £m
Opening balance	292	376	17	17	–	3,110	263	(69)	4,006
Total recognised income and expense					5	936	134		1,075
Share-based payments				9					9
Release on exercise/forfeiture of share options				(8)		8			–
Issue of ordinary shares	2	16							18
Dividends paid							(79)		(79)
Share buy-backs	(5)		5			(74)			(74)
Issue of B shares		(5)	5			(700)			(700)
Own shares								(6)	(6)
Closing balance	289	387	27	18	5	3,280	318	(75)	4,249

Year to 31 March 2008								
Company	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Opening balance	289	387	27	18	3,013	286		4,020
Total recognised income and expense					787	94		881
Share-based payments				8				8
Release on exercise/forfeiture of share options				(5)	5			–
Issue of ordinary shares	3	16						19
B share issue		(6)	6		(808)			(808)
Dividends paid						(70)		(70)
Share buy-backs	(9)		9		(120)			(120)
Closing balance	283	397	42	21	2,877	310		3,930

Year to 31 March 2007								
Company	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Opening balance	292	376	17	17	2,767	277		3,746
Total recognised income and expense					1,012	88		1,100
Share-based payments				9				9
Release on exercise/forfeiture of share options				(8)	8			–
Issue of ordinary shares	2	16						18
B share issue		(5)	5		(700)			(700)
Dividends paid						(79)		(79)
Share buy-backs	(5)		5		(74)			(74)
Closing balance	289	387	27	18	3,013	286		4,020

Capital redemption reserve

The capital redemption reserve is established in respect of the redemption of the Company's ordinary shares.

Share-based payment reserve

The share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

Translation reserve

The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations.

Capital reserve

The capital reserve recognises all profits that are capital in nature or have been allocated to capital. These profits are not distributable by way of dividend.

Revenue reserve

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

28 Own shares

	2008 £m	2007 £m
Opening cost	75	69
Additions	21	20
Disposals	(14)	(14)
Closing cost	82	75

Own shares consists of shares in 3i Group plc held by The 3i Group Employee Trust. The market value of these shares at 31 March 2008 was £90 million (2007: £124 million). The Trust is funded by an interest-free loan from 3i Group plc.

29 Per share information

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

	2008	2007
Earnings per share (pence)		
Basic	207.9	220.4*
Diluted	173.4	217.9*
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	828	1,056
Effect of dilutive ordinary shares	(87)	–
	741	1,056

*Restated for the deduction of own shares not previously taken into account.

	2008 Number	2007 Number
Weighted average number of shares in issue		
Ordinary shares	408,633,804	489,987,864
Own shares	(10,458,932)	(10,756,533)
	398,174,872	479,231,331
Effect of dilutive potential ordinary shares		
Share options	4,663,864	5,396,980
Convertible bonds	24,408,684	–
Diluted shares	427,247,420	484,628,311

	2008	2007
Net assets per share (pence)		
Basic	1,091	944
Diluted	1,077	932
Net assets (£m)		
Net assets attributable to equity holders of the Company	4,057	4,249

	2008 Number	2007 Number
Ordinary shares in issue	382,741,094	461,106,007
Own shares	(10,867,901)	(10,931,404)
	371,873,193	450,174,603
Effect of dilutive potential ordinary shares		
Share options	4,954,110	5,896,253
Diluted shares	376,827,303	456,070,856

30 Dividends

	2008 pence per share	2008 £m	2007 pence per share	2007 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	10.3	47	9.7	52
Interim dividend	6.1	23	5.8	27
	16.4	70	15.5	79
Proposed dividend	10.9	42	10.3	47

31 Operating leases

Leases as lessee

Future minimum payments due under non-cancellable operating lease rentals are as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Less than one year	13	9	–	–
Between one and five years	38	32	–	–
More than five years	44	42	–	–
	95	83	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2008, £14 million (2007: £10 million) was recognised as an expense in the income statement in respect of operating leases. £1 million (2007: £1 million) was recognised as income in the income statement in respect of subleases.

32 Commitments

	Group 2008 due within one year £m	Group 2008 due 2-5 years £m	Group 2008 due over 5 years £m	Total £m
Equity and loan investments	220	126	10	356

	Group 2007 due within one year £m	Group 2007 due 2-5 years £m	Group 2007 due over 5 years £m	Total £m
Equity and loan investments	147	257	22	426

	Company 2008 due within one year £m	Company 2008 due 2-5 years £m	Company 2008 due over 5 years £m	Total £m
Equity and loan investments	95	78	1	174

	Company 2007 due within one year £m	Company 2007 due 2-5 years £m	Company 2007 due over 5 years £m	Total £m
Equity and loan investments	73	132	19	224

Notes to the financial statements continued

33 Contingent liabilities

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	15	9	6	5

The Company has guaranteed the payment of principal, premium if any, and interest on all the interest rate swap agreements of 3i Holdings plc.

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £150 million and the £486 million revolving credit facilities. At 31 March 2008, 3i Holdings plc had drawn down £84 million (2007: £73 million) under the first facility and £200 million (2007: £nil) under the second facility.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan.

At 31 March 2008, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

34 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 third-party funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Income statement				
Carried interest receivable	60	81	60	81
Fees receivable from external funds	60	37	–	–

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Balance sheet				
Carried interest receivable	75	83	75	83

Investments

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

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Income statement				
Realised profit over value on the disposal of investments	369	715	180	346
Unrealised profits on the revaluation of investments	196	316	59	143
Portfolio income	204	195	65	144

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Balance sheet				
Quoted equity investments	661	411	654	405
Unquoted equity investments	1,990	1,392	738	674
Loans and receivables	1,679	803	323	292

34 Related parties (continued)

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. There has been no single transaction in the year with a material effect on the Group's financial statements and all such transactions are fully included in the above disclosure.

Advisory arrangements

The Group acts as an adviser to 3i Infrastructure Limited and 3i Quoted Private Equity Limited, companies listed on the London Stock Exchange. The following amounts have been included in respect of these advisory relationships:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Income statement				
Unrealised (losses)/profits on the revaluation of investments	(11)	9	(11)	9
Fees receivable from external funds	12	–	12	–
Dividends	6	–	6	–

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Balance sheet				
Quoted equity investments	503	334	503	334

Key management personnel

The Group's key management personnel comprises the members of Management Committee and the Board's non-executive Directors.

	Group 2008 £m	Group 2007 £m
Income statement		
Salaries, fees, supplements and benefits in kind	5	5
Bonuses and deferred share bonuses	12	8
Increase in accrued pension	–	–
Carried interest payable	19	15
Share-based payments	4	2

	Group 2008 £m	Group 2007 £m
Balance sheet		
Bonuses and deferred share bonuses	12	8
Carried interest payable within one year	11	6
Carried interest payable after one year	11	12

Carried interest paid in the year to key management personnel was £18 million (2007: £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 £39 million (2007: £39 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 £223 million (2007: £194 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 2008 to £1 million (2007: £1 million).

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 income statement are £1 million (2007: £10 million).

35 Group entities

Significant subsidiaries

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	England and Wales	1,000,000 shares of £1	Holding company	16 Palace Street London
3i International Holdings	England and Wales	2,715,973 shares of £10	Holding company	SW1E 5JD
3i plc	England and Wales	110,000,000 shares of £1	Services	
3i Investments plc	England and Wales	10,000,000 ordinary shares of £1	Investment manager	
3i Europe plc	England and Wales	500,000 ordinary shares of £1	Investment adviser	
3i Nordic plc	England and Wales	500,000 ordinary shares of £1	Investment adviser	
3i Asia Pacific plc	England and Wales	140,000 ordinary shares of £1	Investment adviser	
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee	
3i Corporation	USA	15,000 shares of common stock (no par value)	Investment manager	880 Winter Street Suite 330 Waltham MA 02451, USA
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	Germany	€25,564,594	Investment manager	Bockenheimer Landstrasse 55 60325 Frankfurt am Main, Germany
3i Gestion SA	France	1,762,500 shares of €10	Investment manager	3 rue Paul Cezanne Paris, 75008 France

The list above comprises the principal subsidiary undertakings as at 31 March 2008 all of which were wholly owned. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

Each of the above subsidiary undertakings is included in the consolidated accounts of the Group.

As at 31 March 2008, the entire issued share capital of 3i Holdings plc was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings listed above was held by subsidiary undertakings of the Company, save that four shares in 3i Gestion SA were held by individuals associated with the Group.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 to the Companies Act 1985 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return.

Advantage has been taken of the exemption conferred by regulation 7 of The Partnerships and Unlimited Companies (Accounts) Regulations 1993 from the requirements to deliver to the Register of Companies and publish the accounts of those limited partnerships included in the consolidated accounts of the Group.

Portfolio valuation – an explanation

Our policy is to value 3i's investment portfolio at fair value and achieve this by valuing individual investments on an appropriate basis using a consistent methodology across the portfolio. The following guide explains the valuation methods used.

What is fair value?

Fair value is the value of an asset or liability in an arm's-length transaction between two willing and knowledgeable parties. This generally provides the best estimate of what we would receive if we sold the investment at the date of valuation. The Group's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), many of which are based on the concept of fair value.

Does 3i follow industry guidelines?

Yes. The Group complies with all material aspects of the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The IPEVC valuation guidelines specify the valuation methodology which is most appropriate to individual investments at a particular point in time.

Is an investment valued on the same basis throughout the period 3i is invested?

3i carries out a detailed valuation of its investment portfolio twice yearly. At each valuation point the investment is valued on the most appropriate basis. For example, if a portfolio company lists its shares on a stock exchange it would be valued on a quoted basis at the next valuation.

How are quoted investments valued?

Quoted investments are valued at closing bid price at the date of valuation. No discounts are applied for illiquidity of the stock or dealing restrictions, such as lock-up periods, provided investments are traded on an active stock market.

How are unquoted investments valued?

In line with the IPEVC valuation guidelines a number of different valuation methods are used for unquoted investments:

- Cost less provisions;
- Earnings;
- Net assets;
- Price of recent investment; or
- Imminent sale or IPO.

What proportion of the portfolio is valued on each valuation basis?

The portfolio for the year ended 31 March 2008 is valued on the following basis:



Note: Cost includes unquoted equity investments and loans and receivables.

Under what circumstances would an investment be valued on a cost basis?

For investments that are less than 12 months old, the price that 3i paid, ie cost, is considered the most appropriate valuation method. However the performance of the investment is also reviewed to see if any impairment should be made if the company is underperforming. When a full set of accounts (covering a period of at least six months following the investment) are received then those figures are used to prepare the valuation on an alternative basis to cost.

What does valuing an investment on an earnings basis actually mean?

The "earnings" basis is a very common basis of valuing unquoted companies when they are being bought or sold. Essentially a multiple is applied to the earnings of the company, to calculate an enterprise value. This enterprise value is the total value of the investment, including debt, any preferred financial instruments and equity. Before calculating the value of 3i's shareholding in the company, the debt and any preferred instruments need to be deducted from the enterprise value. The total value of 3i's investment is then the value of its equity plus any debt or preferred financial instruments that are due to 3i.

How do we calculate 3i's share of the enterprise value?

We allocate the enterprise value to financial instruments which rank above 3i, such as senior loans. We then generally apply a marketability discount of 10%–30% in accordance with the IPEVC valuation guidelines. We can then allocate the remaining balance between equity holders dependent on individual shareholding.

What level of marketability discount is applied?

The marketability discount of 10%–30% is based on the Group's influence over the exit prospects and timing for the company. A greater influence gained through a greater equity holding implies a smaller discount. In a smaller number of cases a greater discount may be applied if there are particular factors affecting the ability to sell.

What happens if the enterprise value is less than the loan amount?

This implies that there is a shortfall in the value of the loan. A decision based on the performance of the investment is then taken as to whether to recognise this shortfall.

How do we value loans?

We value loans using the "amortised cost" method, which is in accordance with IFRS. The amortised cost represents the amount at which the loan is measured at initial recognition, less principal repayments taking into account any premium or discount on the original loan amount. Effectively, this is cost less any provisions required. Interest income is recognised using the effective interest rate based on all the loan's cash flows.

How are earnings defined?

The objective is to use maintainable earnings of the company in which 3i is invested. These are the "normal" earnings of the company, and are calculated by removing any ad hoc amounts included in the current year figures, such as profits on disposal of fixed assets or one-off expenses that are not expected to occur on a regular basis. A common measure of earnings used for this calculation is earnings before interest and tax "EBIT". Other measures used are earnings before interest, tax, depreciation and amortisation "EBITDA", or profit after tax. These figures are usually taken from the latest audited accounts, which cover a period of at least six months since the date of investment. A review of more recent management accounts is conducted to ensure that the audited accounts remain a valid basis.

Which multiple is appropriate to use?

Multiples need to be consistent with the measure of earnings chosen. Therefore EBIT multiples must be used with EBIT, EBITDA multiples with EBITDA and Price Earnings ("PE") multiples used with profit after tax. The multiple used can be calculated using recent transaction information, external valuations or quoted sector multiples.

What happens if an investment is reporting a loss?

One of the other valuation methodologies can be used. For example the valuation can be prepared on a net asset basis.

What happens if the investment is failing?

If a company is failing or we consider that there is a 50% chance or more that it is likely to fail within the next 12 months, the equity element is valued at nil, and any loan element is valued at the lower of cost or net recoverable amount.

When is the price of recent investment basis used?

Venture capital investments often have a number of financing rounds during the life of the investment. The last round of financing can be used as a reference point to calculate fair value. To increase the value of an investment, the round of financing must have external parties investing.

What is the "other" basis of valuation?

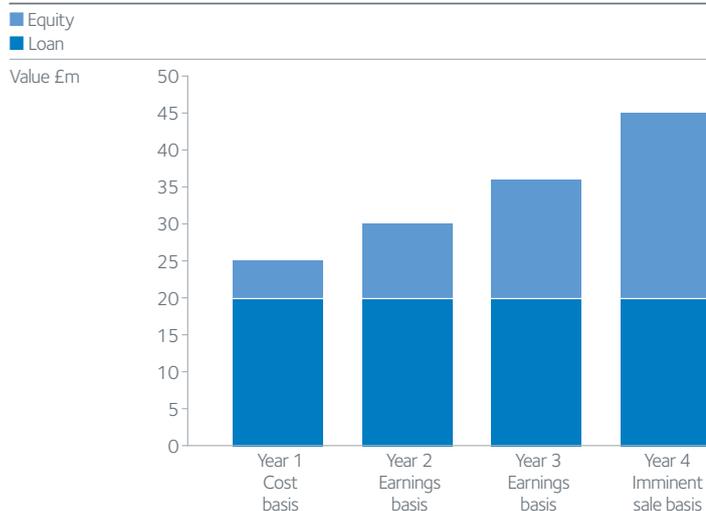
"Other" includes DCF calculations, which estimate the present value of an investment's future cash flows. This methodology is most appropriate where cash flows over the life of an investment are predictable. This basis is commonly used for infrastructure investments, which are usually held over a long period of time and generate regular and predictable cash flows. "Other" could also include investments in funds valued based on 3i's share of net assets or investments in specific sectors such as insurance where industry specific benchmarks are used. Six of the investments detailed on pages 108 and 109, totalling £451 million and representing 7.5% of the portfolio value, were included in this category.

What happens if an investment is in the process of being sold?

When an investment is in an advanced sales process, we will use the imminent sale basis of valuation, which uses the expected proceeds from the sale, applying a 10% marketability discount. We will consider the potential effect of completion conditions before moving an asset to this basis.

The valuation lifecycle

The following illustration walks through the valuation of an asset from investment to realisation.



3i invested £20 million in loans and £5 million in equity for a 25% equity holding in Investment A in year 1. Investment A is an oil and gas production company, based in Europe. The following description explains the valuation bases used throughout the ownership of Investment A.

Year 1 – Cost basis

The investment is less than a year old and there are no indications of impairment, therefore the valuation remains at cost. Total value £25 million.

Year 2 – Earnings basis

The audited accounts for Investment A are now available and the valuation can be prepared on an earnings basis, using a sector multiple as the most accurate multiple available for Investment A.

The audited EBITDA of Investment A are £10 million and the sector EBITDA multiple for the quoted European oil and gas production sector is 10x. There is also £20 million of external debt within Investment A that ranks above 3i's investment and needs to be included in the following valuation calculation:

	£m
Earnings – EBITDA	10
Multiple – Oil and Gas sector EBITDA multiple	x10
Enterprise value (earnings x multiple)	100
Less:	
Higher ranking loans (external debt)	(20)
Net enterprise value	80
Less:	
Marketability discount 25%	(20)
	60
Less:	
3i Loan	(20)
Amount attributable to equity holders	40
3i equity holding at 25%	10
Total value for 3i (loan and equity)	30

The calculation shows the sector multiple of 10x being applied to the EBITDA of Investment A of £10 million to derive the enterprise value. After reducing the enterprise value by £20 million for higher ranking loans a 25% marketability discount is applied. This reflects the fact that 3i has reduced influence due to its minority position. The value attributable to 3i and other shareholders is £60 million. 3i's loan ranks above equity holders and therefore this reduces the amount attributable to equity holders to £40 million. We can now apply the 3i equity holding percentage of 25% to £40 million to achieve the value of £10 million for 3i's equity. The total value to 3i is therefore £20 million for the loan and £10 million for equity, £30 million in total.

Year 3 – Earnings basis

Following year 2 the valuation is updated for the performance of Investment A. Earnings have increased to £12 million and the sector multiple has increased to 11x and there is no reason to change the valuation basis, therefore an earnings basis continues to be used. As other factors have remained the same as for year 2, the valuation of 3i's equity investment has increased to £16 million and the loan value remains at £20 million. Total value: £36 million.

Year 4 – Imminent sale basis

We have been approached by an external buyer to purchase our equity and loan investment in Investment A for £50 million, and discussions are now in their final stages. This is now valued on an imminent sale basis. The cash has not been received at the time of valuation and therefore a 10% discount has been applied. The valuation is now calculated as the sum of the loan value (£20 million) and of the equity element (£25 million) which together total £45 million.

Year 5 – Realisation

The investment is sold and is no longer held in the portfolio at the year end. If proceeds are different to the imminent sale value there would be a realisation profit or loss.

Ten largest investments

The table below provides information on our ten largest investments in respect of the Group's holding and excluding any managed or advised external funds. The valuation basis provides further information on how the Group's valuation has been derived. Income represents dividends received (inclusive of overseas withholding tax) and gross interest receivable in the year to 31 March 2008. Net assets and earnings figures are taken from the most recently audited accounts of the investee business, and are the net assets of each business and the total earnings on ordinary activities after tax respectively. It should be noted that, because of the varying rights attached to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of the earnings and net assets to the proportion of equity capital held by the Group.

Further information on our portfolio investments is provided as case studies within the Business review section, and more generally at 3i.com

Investment	Business line	Geography	First invested in	Valuation basis	Proportion of equity shares held	Residual cost £m	Valuation £m	Income in the year £m	Net assets £m	Earnings £m
3i Infrastructure Limited¹	Infrastructure	UK	2007	Quoted						
Quoted investment company, investing in infrastructure										
Equity shares					46.2%	325	363	6		
						325	363	6		
Giochi Preziosi S.r.l	Buyouts	Italy	2005	Imminent sale						
Retailer and wholesaler of toys										
Equity shares					37.8%	63	151	–		
						63	151	–	137	3
3i Quoted Private Equity Limited²	QPE	UK	2007	Quoted						
Quoted investment company, investing in quoted companies										
Equity shares					44.9%	181	140	–		
						181	140	–		
Venture Production plc³	Growth	UK	2007	Quoted						
Oil and gas production										
Equity shares					23.5%	34	50	2		
Loans						77	77	1		
						111	127	3	281	48
Viridis Holding S.p.A. (Global Garden Products)	Buyouts	Italy	2007	Cost						
Garden power tools										
Equity shares					33.7%	4	5	–		
Loans						100	111	–		
						104	116	–	140	6
DNA Oy⁴	Growth	Finland	2007	Cost						
Telecom operator										
Equity shares					13.0%	97	113	–		
						97	113	–	201	(19)
Enterprise Group Holdings Limited⁵	Buyouts	UK	2007	Cost						
UK utilities and public sector maintenance outsourcing										
Equity shares					32.2%	3	3	–		
Loans						108	108	12		
						111	111	12	(28)	(38)
ACR Capital Holdings Pte Limited	Growth	Singapore	2006	Other						
Reinsurance in large risk segments										
Equity shares					10.2%	105	110	–		
						105	110	–	307	8
Quintiles Transnational Corporation⁶	Growth	US	2008	Cost						
Clinical research outsourcing solutions										
Equity shares					7.0%	100	101	–		
						100	101	–	(228)	(93)
Anglian Water Group Limited	Infrastructure	UK	2006	Other						
Provider of drinking water and waste water services										
Equity shares					5.5%	–	12	7		
Loans						86	86	3		
						86	98	10	1,493	335

Notes

1 3i Infrastructure Limited was incorporated in March 2007 and subsequently listed on the London Stock Exchange. No audited accounts are yet available, consequently no net assets or earnings are disclosed.

2 3i Quoted Private Equity Limited was incorporated in March 2007 and subsequently listed on the London Stock Exchange. No audited accounts are yet available, consequently no net assets or earnings are disclosed.

3 Quoted element is valued as listed, and loans are valued using amortised cost.

4 The audited accounts for DNA Oy are for the year ended 31 December 2006 and are proforma accounts. EBIT has been used for the earnings figure.

5 The net liabilities and earnings figures have been extracted from the audited accounts of Enterprise Group Holdings Limited for the seven month period ended 31 December 2007. The acquisition of Accord in September 2007 is included in these results.

6 The audited accounts of Quintiles Transnational Corporation are for the year ended 31 December 2006.



For further information on 3i's portfolio valuation methodology please go to [pages 106 and 107](#)

Forty other large investments

In addition to the ten largest investments shown on page 108, detailed below are forty other large investments which are substantially all of the Group's investments valued over £33 million. This does not include two investments that have been excluded for commercial reasons.

Investment	Description of business	Business line	Geography	Valuation basis	First invested in	Residual cost £m	Valuation £m
Boxer TV-Access AB	Digital TV distributor	Growth	Sweden	Earnings	2005	56	97
Inspicio Sarl	Global testing and inspection	Buyouts	UK	Cost	2007	91	91
Sistemas Technicos de Encofrados S.A. (STEN)	Sale and rental of formwork and scaffolding equipment	Growth	Spain	Earnings	2006	78	89
Telety Group plc	Services for internet service providers	Buyouts	UK	Quoted	1998	16	83
DEUTZ Power Systems GmbH	Provider of decentralised power generation systems	Buyouts	Germany	Cost	2007	68	80
Sortifandus S.L. (GES - Global Energy Services)	Wind power service provider	Buyouts	Spain	Earnings	2006	35	79
Ambea AB (H-Careholding)	Elderly, primary and specialist care	Buyouts	Sweden	Earnings	2005	20	77
Hyva Investments BV	Branded hydraulics for commercial vehicles	Buyouts	Netherlands	Earnings	2004	4	75
Newco Sourcing Limited (British Seafood)	Seafood sourcer, processor and importer from Far East	Growth	UK	Cost	2007	72	72
CDH China Growth Capital Fund II LP	China growth capital fund	Growth	China	Other	2005	18	67
Mold Masters Luxembourg Holdings Sarl	Leading plastic processing technology provider	Growth	Canada	Cost	2007	67	66
Eltel Networks Oy	Network services	Buyouts	Finland	Other	2007	74	66
Laholm Intressenter AB (DIAB)	Polymer-based sandwich construction laminates	Growth	Sweden	Earnings	2001	8	65
Volnay B.V. (VNU Media)	Dutch recruitment classified advertising	Buyouts	Netherlands	Earnings	2007	51	61
Polyconcept Investments B.V.	Supplier of promotional products	Growth	Netherlands	Earnings	2005	27	59
Aviapartner Group S.A.	Airport ground handling	Buyouts	Belgium	Earnings	2005	49	58
Ultralase Group Limited	Laser vision correction surgery	Buyouts	UK	Cost	2008	58	58
Jake Holdings Limited (Mayborn)	Manufacture and distributor of baby and household products	Buyouts	UK	Earnings	2006	58	57
Planet Acquisitions Holdings Limited (Chorion)	Owner of intellectual property	Buyouts	UK	Other	2006	58	57
Mundra Port & Special Economic Zone (MPSEZ)	Port and Special Economic Zone operator	Growth	India	Quoted	2006	34	53
Nimbus Communications Limited	Media and entertainment services	Growth	India	Other	2005	39	53
Navayuga Engineering Company Limited	Engineering and construction	Growth	India	Earnings	2006	23	52
NORMA Group holding GmbH	Provider of plastic and metal connecting technology	Buyouts	Germany	Earnings	2005	28	52
Gain Capital Holdings Inc	Retail online foreign exchange trading	Growth	US	Cost	2008	48	49
Inspecta Holding Oy	Supplier of testing and inspection services	Buyouts	Finland	Cost	2007	40	47
Scandferries Holding AG (Scandlines)	Ferry operator in the Baltic Sea	Buyouts	Germany	Cost	2007	40	47
Emperor I Limited (Bestinvest)	Wealth management	Buyouts	UK	Cost	2007	47	47
Welspun Gujarat Stahl Rohren Limited	Oil and gas line pipe manufacturing	Growth	India	Quoted	2007	40	47
Consulting 1 S.p.A (Targetti Sankey)	Design and manufacturer of lighting fixtures	Growth	Italy	Cost	2007	38	45
Dockwise	Specialist in heavy transport shipping within the marine and oil and gas industry	Buyouts	Netherlands	Quoted	2007	1	44
Hobbs Holdings No. 1 Limited	Retailer of women's clothing and footwear	Buyouts	UK	Earnings	2004	42	42
Demand Media Inc	Internet/media domain name registry services	Venture	US	Further advance	2006	31	41
Car Interior Design Holding GmbH (CID)	Manufacturer of vehicle interior trim	Growth	Germany	Earnings	2004	21	40
3i India Infrastructure Holdings Limited	Fund investing in Indian infrastructure	Infrastructure	India	Cost	2007	36	38
Everis Participaciones S.L.	IT consulting business	Growth	Spain	Cost	2007	30	35
Goromar XXI, S.L.	Manufacture of frits, glazes and colours for tiles	Buyouts	Spain	Earnings	2002	19	35
Azelis Group	Distributor of speciality chemicals, polymers and related services	Buyouts	Italy	Cost	2007	30	35
Pearl (AP) Group Limited (Agent Provocateur)	Women's lingerie and associated products	Buyouts	UK	Cost	2007	35	35
Alö Intressenter AB	Manufacture of front end loaders	Growth	Sweden	Earnings	2002	32	33
TS Marine (Contracting) Limited	Oil services	Growth	UK	Cost	2008	33	33



For further information on 3i's portfolio valuation methodology please go to [pages 106 and 107](#)

Assets under management

Total assets under management include portfolio assets directly owned by the Group, assets and uninvested commitments in funds managed by the Group, and investment companies advised by the Group.

3i direct portfolio (£m)	2008	2007	2006	2005	2004
Buyouts	2,025	1,281	1,465	1,521	1,487
Growth Capital	2,366	1,460	1,192	1,292	1,233
Infrastructure	501	469	92	–	–
QPE	142	20	–	–	–
SMI	244	391	564	756	960
Venture Capital	738	741	826	748	682
Total	6,016	4,362	4,139	4,317	4,362

Managed funds (£m)	2008	2007	2006	2005	2004
Buyouts	2,594	2,129	1,090	1,292	1,113
Growth Capital	183	227	401	527	574
Infrastructure	348	–	–	–	–
SMI	–	16	52	59	88
Venture Capital	18	15	30	35	100
Total	3,143	2,387	1,573	1,913	1,875

Advised investment companies (£m)	2008	2007	2006	2005	2004
3i Infrastructure Limited ¹	364	385	–	–	–
3i Quoted Private Equity Limited ¹	269	–	–	–	–
Total	633	385	–	–	–

Quoted investment companies and 3i Group Pension Plan ²	–	–	–	–	600
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Total assets under management	9,792	7,134	5,712	6,230	6,837
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Notes

- 1 The value of the advised investment companies is based on the most recently disclosed net asset value. For 3i Infrastructure Limited this was as at 30 September 2007. For 3i Quoted Private Equity Limited this was as at 31 March 2008.
- 2 3i closed its quoted fund management business in 2005. The 3i Group Pension Plan is now managed by a third party.

3i portfolio

3i direct portfolio by geography (£m)	2008	2007	2006	2005	2004
Continental Europe	2,573	1,894	1,923	1,693	1,516
UK	2,250	1,792	1,736	2,258	2,528
India	334	148	56	–	–
China	171	60	63	21	8
Other Asia*	174	165	48	68	67
US	497	283	307	277	243
Rest of World	17	20	6	–	–
Total	6,016	4,362	4,139	4,317	4,362

*Includes Japan, Singapore, South Korea and Taiwan.

3i direct continental European portfolio value (£m)	2008	2007	2006	2005	2004
Benelux	419	326	124	180	181
France	195	257	344	292	234
Germany/Austria/Switzerland	428	297	489	503	459
Italy	351	113	142	69	53
Nordic	653	491	394	344	332
Spain	443	370	342	249	224
Other European*	84	40	88	56	33
Total	2,573	1,894	1,923	1,693	1,516

*Other European includes investments in countries where 3i did not have an office at 31 March 2008.

3i direct portfolio value by sector* (£m)	2008	2007
Business services	819	586
Consumer	703	494
Financial services	415	222
General industrial	1,423	970
Healthcare	572	501
Media	455	338
Oil, gas and power	316	175
Technology	670	587
Infrastructure	501	469
Quoted private equity	142	20
Total	6,016	4,362

*The Group's sector analysis was updated in 2008. The figures in 2007 have been reclassified for comparison.

3i direct portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Imminent sale or IPO	185	254	340	452	250
Quoted	889	570	259	235	290
Earnings	1,660	1,432	1,490	1,757	1,948
Cost	2,007	1,431	1,239	933	998
Price of recent investment	308	159	122	206	156
Net assets	46	67	121	135	250
Other	921	449	568	599	470
Total	6,016	4,362	4,139	4,317	4,362

3i direct Buyouts portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Imminent sale or IPO	150	–	115	164	115
Quoted	141	23	26	49	87
Earnings	781	658	719	853	827
Cost	767	490	475	372	336
Net assets	–	–	2	6	70
Other	186	110	128	77	52
Total	2,025	1,281	1,465	1,521	1,487



For further information on 3i's portfolio valuation methodology please go to [pages 106 and 107](#)

3i portfolio continued

3i direct Growth Capital portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Imminent sale or IPO	12	197	130	147	59
Quoted	174	55	58	71	85
Earnings	710	543	425	448	513
Cost	1,041	481	376	289	326
Price of recent investment	26	9	11	14	13
Net assets	16	17	25	48	62
Other	387	158	167	275	175
Total	2,366	1,460	1,192	1,292	1,233

3i direct Venture Capital portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Imminent sale or IPO	14	21	33	39	41
Quoted	70	130	159	94	91
Earnings	19	15	17	25	–
Cost	157	315	292	247	286
Price of recent investment	282	146	106	189	126
Net assets	7	2	6	1	1
Other	189	112	213	153	137
Total	738	741	826	748	682
– of which early stage Venture Capital	578	580	629	561	456

3i direct Infrastructure portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Quoted	362	334	–	–	–
Cost	38	135	80	–	–
Net assets	–	–	12	–	–
Other	101	–	–	–	–
Total	501	469	92	–	–

3i direct QPE portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Quoted	142	19	–	–	–
Cost	–	1	–	–	–
Total	142	20	–	–	–

3i direct SMI portfolio value by valuation method (£m)	2008	2007	2006	2005	2004
Imminent sale or IPO	9	36	62	102	35
Quoted	–	9	16	21	27
Earnings	150	216	329	431	608
Cost	4	9	16	25	50
Price of recent investment	–	4	5	3	17
Net assets	23	48	76	80	117
Other	58	69	60	94	106
Total	244	391	564	756	960



For further information on 3i's portfolio valuation methodology please go to [pages 106 and 107](#)

Investment

3i direct investment by business line (£m)	2008	2007	2006	2005	2004
Buyouts	788	498	451	338	282
Growth Capital	990	482	497	263	319
Infrastructure	38	380	–	–	–
QPE	182	14	–	–	–
SMI	6	2	6	11	27
Venture Capital	156	200	156	143	156
Total	2,160	1,576	1,110	755	784

3i direct investment by geography (£m)	2008	2007	2006	2005	2004
Continental Europe	707	560	538	341	401
UK	972	650	405	334	309
India	95	99	52	–	–
China	53	39	26	12	7
Other Asia*	23	121	13	17	6
US	303	92	70	51	61
Rest of World	7	15	6	–	–
Total	2,160	1,576	1,110	755	784

*Includes Japan, Singapore, South Korea and Taiwan.

3i direct continental European investment (£m)	2008	2007	2006	2005	2004
Benelux	24	218	62	17	52
France	40	71	88	73	65
Germany/Austria/Switzerland	155	44	76	92	141
Italy	142	–	65	20	14
Nordic	226	87	126	81	87
Spain	93	124	94	41	23
Other European*	27	16	27	17	19
Total	707	560	538	341	401

*Includes investments in countries where 3i did not have an office at 31 March 2008.

3i direct investment by sector* (£m)	2008	2007
Business services	456	137
Consumer	237	109
Financial services	218	152
General industrial	353	309
Healthcare	234	106
Media	56	380
Oil, gas and power	187	162
Technology	199	86
Infrastructure	38	14
Quoted private equity	182	121
Total	2,160	1,576

*The Group's sector analysis was updated in 2008. The figures in 2007 have been reclassified for comparison.

Investment continued

3i direct first and subsequent investment (£m)	2008	2007	2006	2005	2004
First investment in new investee companies	1,617	1,184	755	488	534
Drawdown on existing arrangements for first investments	92	38	12	10	17
Investment by 3i in external funds	253	168	111	26	3
Newly arranged further investment in existing portfolio companies	130	102	162	167	176
Other – including capitalised interest	68	84	70	64	54
Total	2,160	1,576	1,110	755	784

Investment by business line (including managed and advised external funds) (£m)	2008	2007	2006	2005	2004
Buyouts	1,520	781	655	532	438
Growth Capital	991	489	503	274	349
Infrastructure	340	380	–	–	–
QPE	182	14	–	–	–
SMI	6	2	8	12	31
Venture Capital	156	200	156	144	161
Total	3,195	1,866	1,322	962	979

Investment by geography (including managed and advised external funds) (£m)	2008	2007	2006	2005	2004
Continental Europe	1,275	765	652	433	526
UK	1,308	731	498	440	375
Asia	302	263	96	38	17
US	303	92	70	51	61
Rest of World	7	15	6	–	–
Total	3,195	1,866	1,322	962	979

Realisations

Realisations proceeds by business line (£m)	2008	2007	2006	2005	2004
Buyouts	858	1,341	877	505	205
Growth Capital	503	691	855	443	391
Infrastructure	57	5	–	–	–
QPE	18	–	–	–	–
SMI	136	214	268	198	236
Venture Capital	170	187	207	156	91
Total	1,742	2,438	2,207	1,302	923

Realisations proceeds by geography (£m)	2008	2007	2006	2005	2004
Continental Europe	894	1,159	891	365	245
UK	783	1,169	1,173	897	608
India	–	–	–	–	–
China	5	39	23	–	–
Other Asia*	20	15	44	6	60
US	40	56	76	34	10
Rest of World	–	–	–	–	–
Total	1,742	2,438	2,207	1,302	923

*Includes Japan, Singapore, South Korea and Taiwan.

Realisations proceeds by method (£m)	2008	2007	2006	2005	2004
IPO	94	124	229	41	7
Sale of quoted investments	105	116	143	134	118
Sale of unquoted equity	1,081	1,546	1,271	744	532
Refinancing and loan repayments	462	652	564	383	266
Total	1,742	2,438	2,207	1,302	923

Private equity and venture capital – a lexicon

Like any industry, the Private Equity industry has its own language. This Lexicon provides a description of some of the key terms.

Definitions

“Private equity”, as the term suggests, involves investment of equity capital in private businesses. More recently it has become as much associated with an investment style as it has with its more literal description.

3i's private equity activities cover:

Buyouts This involves the purchase of an existing independent business or a subsidiary or division of a corporate group from its current owners. This category of investment includes management buyouts, management buy-ins, and institutional buyouts. Here, the equity in the post-buyout business is usually shared between the management team and the Private Equity investor (“PE investor”), with the PE investor usually holding a majority stake.

The financing for the buyout would generally comprise around 50% of senior and mezzanine debt (usually provided by banks and mezzanine providers), with substantially all of the balance of the purchase price coming from the PE investor and a relatively small amount coming from the management team. A large part of the PE investor's finance is generally provided in the form of redeemable preference shares or shareholder loans. This is to reflect the mismatch between the equity finance provided by the PE investor and that of the management team, as well as to provide a significant equity incentive for management.

Examples of buyouts investments can be found on pages 14 and 15.

Growth capital (or development capital)

This involves the provision of capital to accelerate the growth of established businesses and generally involves the PE investor taking a minority equity position. It is a type of investment suited to a diverse range of growth opportunities, including acquisitions, increasing production capacity, market or product development, turnaround opportunities, shareholder succession and change of ownership situations. For 3i from 1 April 2008 this category of investing also includes investments in later stage technology and healthcare businesses.

Examples of growth capital investments can be found on pages 18 and 19.

Infrastructure 3i also invests in infrastructure assets. These are investments in asset-intensive businesses which provide essential services such as transport, utilities and social infrastructure under long-term contracts. These include a range of asset maturities, from mature, typically high-yielding assets to early-stage development projects.

Quoted Private Equity (“QPE”) This involves the purchase of influential stakes in smaller quoted companies which have low liquidity in their shares, little analyst coverage and potential to grow significantly. The concept is that through taking a private equity value creation approach to these companies and working with management their prospects can be significantly improved.

Venture capital These are typically investments in “early” and “late” stage technology and healthcare companies. Here, the investor (“the VC”) typically takes a minority equity stake in the business as part of a syndicate of VCs. “Early-stage” investments typically fund research or development expenditure and costs associated with building an organisation for a company which is not yet generating revenues. “Late-stage” investments tend to fund the scaling up of a business, once the model is proven, for companies which are either yet to make a profit or in the early stages of profitability. Both early and late-stage investing usually involves a number of “funding rounds”.

From 1 April 2008, 3i has stopped investing in the early-stage segment of the market and the Venture Capital portfolio has been managed by a separate Venture Portfolio team. Later-stage investments will continue to be made through the Growth Capital business line.

Examples of venture capital investments can be found on pages 26 and 27.

Investment objective

Like any other investor, the objective of the PE investor is to earn attractive returns on its investment, commensurate with the risk being taken. The returns come either in the form of income (interest, dividends or fees) or capital gains. The contrast with investment in quoted companies is that the PE investor will usually prefer to crystallise its capital gain through a trade sale of the underlying business (ie a sale to a corporate purchaser), a sale to a financial purchaser or a flotation on the public markets. This preference tends to make private equity investment medium to long term in nature, since time is required to implement the value growth strategy for the business and there will also be a wish to optimise the timing of the "exit".

Investment lifecycle

The lifecycle for an investment can be broken down into five distinct phases, with each requiring significant resource and capability on the part of the VC or PE investor:

Origination The ability to access and create investment opportunities. This is a critical component of a PE investor's business model.

Developing and validating the investment case In this phase the PE investor draws upon its knowledge, experience, commercial judgment and other capabilities to develop and validate their investment case. This might involve building a potential board and management team and working with them to develop the strategy for value growth and exit; as well as conducting "due diligence" on all significant assumptions and inputs to the investment case.

Structuring and making the investment This phase involves financial structuring, negotiation and project management skills on the part of the PE investor. Relationships with banks, mezzanine finance providers, intermediaries and others are also important.

Implementing the value creation plan This phase involves "actually making it happen", creating value between making the investment and exit. If the strategy involves corporate acquisitions or mergers, restructuring the business, achieving growth in turnover or operating profits, the PE investor would need to have the required capability to ensure these are achieved. The ability to assess and strengthen the management team as the life cycle proceeds is as important. This might involve having access to a pool of management talent in order to match a particular need to a particular management skill-set.

Exit This phase generally involves a trade sale, a listing on a stock exchange or a sale to another private equity firm ("a secondary"). Exit prospects and strategy should generally be reviewed on an ongoing basis during the investment's life – and the sale or flotation itself requires resource and capability from the PE investor, since both are lengthy and complex processes.

Types of investment vehicle

The predominant vehicle in the industry is the independent, private, fixed-life, closed-end fund, usually organised as a "Limited Partnership". These funds typically have a fixed life of ten years. Investments generally consist of an initial commitment of capital by investors in the fund which is then drawn down as the investment manager finds investment opportunities. Capital is returned to the investors via earnings distributions and sales of investments. Some investment vehicles are organised as captive or semi-captive funds. A captive fund invests only for the interest of its parent organisation (which may be, for example, a bank or investment bank, insurance company, university). A semi-captive fund mixes capital from both outside investors and the parent organisation. Both captive and semi-captive funds tend to be "evergreen" in nature – income from investments and proceeds received on the realisation of investments are substantially retained for further investment rather than being returned to investors. There are also a limited number of private equity investment companies, such as 3i, whose shares are listed on a stock exchange. These tend to be evergreen in nature and offer investors a more liquid exposure to private equity.

Returns and IRRs – an explanation

Our aim is to achieve consistent market-beating returns measured by using “cash-to-cash vintage year IRRs”.

How does 3i's total return equate to the IRR measures?

Total return is calculated as the gross portfolio return plus other fee income, less costs and net interest payable. Total return can be expressed as a quantum or as a percentage of opening shareholders' funds.

Gross portfolio return is made up of the income and value movement (both realised and unrealised) generated from our portfolio.

Costs include expenses and net carried interest payable.

The elements that make up the gross portfolio return are the same constituents used in an IRR calculation.

Gross portfolio return (stated as a percentage of opening portfolio value) will equate to an IRR measure over time. So, if 3i achieves 20% gross portfolio returns each year, the long-term IRR will also move to 20%.

What is total shareholder return?

Total shareholder return is the change in share price over a period, plus dividends re-invested.

What is an IRR measure?

The Internal Rate of Return (“IRR”) is the interim return earned by 3i through investing in an asset from the date of initial investment up until the particular point in time at which it is calculated. The calculation uses monthly cash flows generated from the asset to work out the annualised effective compound rate of return. For assets that have yet to be sold, and therefore have not generated a final cash inflow from sale proceeds, the asset value at the date of calculation of the IRR is used to calculate the return. An IRR can apply to a single asset or a pool of assets (eg all new investments made in financial year 2008 can be pooled to calculate an IRR for vintage year 2008).

An IRR calculated using the current value of the asset as the terminal cash flow is called a Fund IRR. A cash-to-cash IRR does not include any terminal value for unsold assets and is a pure, more simple measure of cash invested compared to cash returned as it does not include any judgmental asset valuation for the unsold assets.

In the business line IRR tables included in the Business review, total investment represents all first and further investment in a vintage and investment in externally managed funds, while return flow consists of capital proceeds and income. Value remaining represents the value still held within the vintage's portfolio based on our latest valuation.

What is a vintage and a vintage year?

A vintage is a collection of assets in which 3i makes its first investment during a defined period of time. The most common time period measured in the private equity industry is a year. A vintage year at 3i includes all new investments made within our financial year, ie vintage year 2008 covers new investments made from 1 April 2007 to 31 March 2008.

Why does 3i track the performance of vintage years?

Looking at the performance of a vintage enables 3i to assess the returns on pools of assets invested during a vintage year. It gives a measure of the performance of each year's investment activity in isolation.

It also allows an assessment of the return generated from assets over the length of time they are held, rather than just looking at the performance between the beginning and end of a financial year, which is shown in the annual total return statement. The annual total return analysis has limitations as a measure of longer-term performance, as it is only a representation of how the assets have performed in one financial year and is heavily influenced by the valuation of the asset at the beginning and end of the year. It does not show the evolution of how a vintage year is performing over time.

To achieve this longer-term measure of performance over time, the IRR is the standard measure used across the private equity industry.

What IRR measures does 3i use to assess the performance of a vintage?

A cash-to-cash IRR cannot be meaningfully used to measure the performance of a vintage until the majority of assets in that vintage are realised. Therefore, 3i monitors the progress of each vintage and the evolution of the IRR using a combination of the Fund IRRs and the extent to which a vintage is realised, to assess the interim performance. Case A, depicted in chart 1, is an example to show the interim cash-to-cash IRR of an asset and clearly indicates why, during the holding period of an asset, the Fund IRR gives a more appropriate measure of performance.

Volatility, the portfolio effect and the holding period

There will always be a range of IRRs achieved on each of the individual assets in each vintage year. However, when assets are pooled together, the portfolio effect will reduce this overall volatility in each vintage year. For example, the range of volatility expected in any one vintage year is +/- 10% for Buyouts and, +/- 7% for Growth Capital.

Across the cycle, the volatility is expected to average out at +/- 5% for Buyouts and, +/- 3% for Growth Capital.

A 3i vintage year is made up of many assets. All will have their own individual cash flows, holding periods and will be revalued at different times. After three years the maturity of a vintage tends to have developed enough for the Fund IRR to give a good indication of the final outcome. By seven years most vintage years will be largely realised.

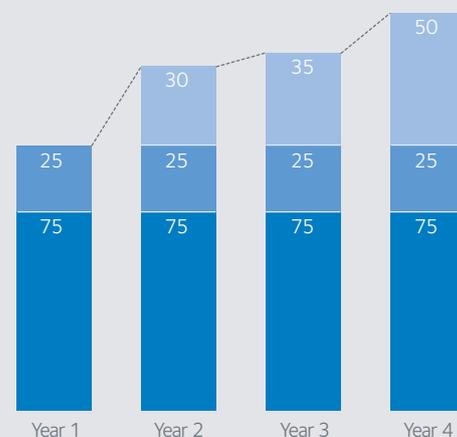
Tracking our progress

To monitor a vintage year 3i uses a combination of Fund IRRs and money multiples. The Fund IRR gives a measure of performance and the money multiple shows how much cash has been returned compared to cost (eg Case A = 1.7x) so that we can assess the extent to which that performance is "locked-in".

We have published the Fund IRRs for our long-established business lines within the Business review.

Chart 1: IRR evolution

3i equity – value uplift
3i equity – cost
3i shareholder loan



Case A

Investment	(100)	–	–	–
Yield	–	6.5	6.5	6.5
Value at year end	–	130	135	–
Sale proceeds	–	–	–	150
Fund IRR	0%	36%	22%	20%
Cash-to-cash IRR	(100%)	(94%)	(71%)	20%

Carried interest – an explanation

Private equity firms ensure alignment between the interests of management teams and investors through a variety of mechanisms. A key financial mechanism is “carried interest” or “carry” and this is explained below.

What is carried interest?

Carried interest refers to the profits generated in a successful private equity fund that are received by the carried interest holders, and which typically amount to 20% of the net profit in the fund.

Who is the carried interest holder?

This is often the senior management team of the fund manager, but varies between private equity firms.

Where does the term carried interest come from?

The investor who receives the carried interest is said to be carried by the other investors since they are willing to allocate up to 20% of their profits to the carried interest holder.

How does carried interest ensure alignment of the parties in a private equity transaction?

The main parties in a private equity transaction are the management team of the underlying company in which the fund is investing, the investors in the fund and those who manage the fund.

Management teams of companies backed with private equity are incentivised by the potential capital gain on their investment in the company. **Investors** in private equity funds benefit from the growth in value of these underlying companies.

Managers of the fund holding the carried interest benefit if the overall performance of the fund is successful.

When is carried interest paid and how is it calculated?

Carried interest is usually based on the performance of the fund as a whole, but in some funds is paid on an investment-by-investment basis. Usually investors receive their initial capital back plus a “hurdle” to ensure a minimum level of return before any carried interest is paid.

Typically, this hurdle is based on the Internal Rate of Return (“IRR”) of the fund since its inception – for more information on IRRs see page 118. An IRR-based hurdle is the most appropriate mechanism in the private equity industry due to the focus on cash-to-cash returns.

Once the hurdle has been met, most funds allocate cash flows above the hurdle disproportionately for a short period, known as the “catch up” phase, until the carried interest holder has received the right proportion of the overall profits in the fund.

Why are investors in a private equity fund willing to forego as much as 20% of profit in carried interest?

Generally investors value the alignment that carried interest provides.

Carried interest functions in a similar way to a performance fee. It is directly linked to the success of the investment fund and has the benefit to the investors of being measured on the cash returned to them rather than the value of the fund.

In return for paying carried interest, fund investors demand “active” management of their capital. Specifically, the fund manager will:

- invest fund investors’ capital in high quality companies;
- develop and implement a value-creation strategy for each company in the portfolio;
- participate in the strategic and operational policy-making through board representation;
- earn an appropriate yield on the investment;
- and provide a profitable exit through a trade sale, IPO or refinancing.

What other return does the fund manager receive?

The fund will pay a priority profit share (often called the “management fee”) to cover the costs of the fund manager. This is typically 1% to 2% of the investors’ commitments to the fund annually.

Why does 3i have both carried interest receivable and carried interest payable?

3i’s **carried interest receivable** is due from the third-party funds that 3i manages. 3i has raised a succession of buyout funds, the most recent being Eurofund V, a €5 billion mid-market fund, and this year a \$1.2 billion infrastructure fund to invest in the Indian market.

3i’s **carried interest payable** is due to investment executives employed by 3i. Assets in a vintage are grouped together in pools (typically covering two years of investment), which are specific to a particular investment team. The executives in that team purchase the rights to the carried interest and, if the pool is profitable, they will receive an allocation of investment profits. 3i’s internal carry schemes are structured in the same way as external funds, with similar terms and conditions. Approximately 94% of 3i’s portfolio assets, measured by value at 31 March 2008, are within carried interest schemes.

Both carried interest receivable and payable are accrued in line with underlying realised and unrealised profits in the fund but cash payments are not made until the cash is returned to investors, as noted above.

As the level of carried interest receivable is related to the returns in 3i's co-investment funds, while the level of carried interest payable is related to the returns from 3i's own investments, carried interest receivable and payable are only indirectly related in 3i's accounts.

However in 3i's Buyout business line, there is a correlation between carried interest receivable and payable because investments in the same business are held both by the managed fund and held on 3i's own balance sheet.

Why does 3i have co-investment arrangements alongside its carried interest schemes?

In line with market practice, 3i requires those investment executives who acquire carried interest rights also to invest alongside 3i. The terms of these "co-investment" arrangements are changed from time to time but typically involve investment executives personally investing up to 2% of the total 3i and funds commitment to each new investment. Gains or losses from the co-investments accrue to the investment executives and provide further alignment with 3i and the fund investors.

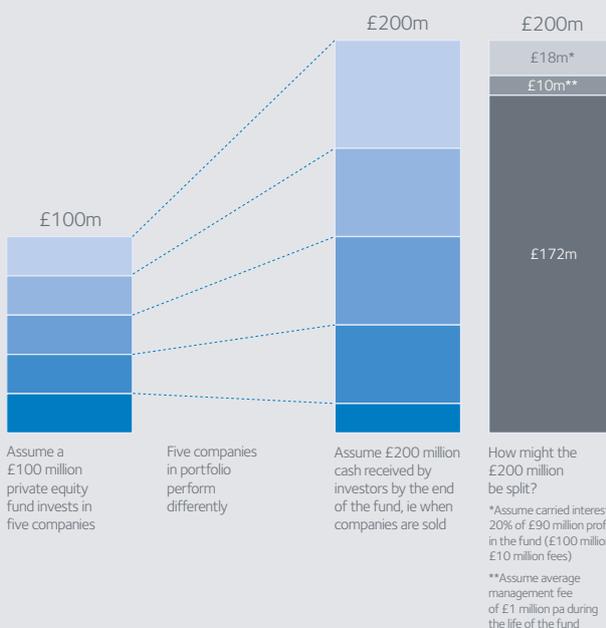
How does 3i account for carried interest?

3i accounts for carried interest on an accruals basis. As realisations are made and valuations are adjusted, 3i reviews the impact on each carry scheme in place and amends its carried interest accruals accordingly.

3i's accounting policy means that movements in gross portfolio return are fully reflected in the calculation of carried interest payable and receivable, ultimately reducing year-on-year volatility to 3i's total return.

Worked example

- Company A
 - Company B
 - Company C
 - Company D
 - Company E
- Carried interest
 - Management fee
 - Cash returned to investors



3i and Transparency

For over 60 years, 3i's objective has been to take an open and straightforward approach to doing business and describing what we do to those who have an interest.

Our track record

Long before becoming a public company in 1994, 3i produced an annual report which went beyond what was required from a legal perspective. We do this because we think it is good for our business, especially as we have grown 3i internationally and in markets where the Private Equity model is less familiar. Once 3i became listed on the London Stock Exchange in July 1994, and shortly afterwards became a FTSE 100 company, its peer group consisted of other members of the FTSE 100 as well as PE firms. 3i is regularly ranked in surveys against these peers. At the UK 2007 Investor Relations Society Best Practice awards in April 2007, our 2006 Annual report was one of four short listed for the Best Annual report: Most effective communication FTSE 100 award. 3i's Corporate responsibility report for 2006 was awarded top place.

As the industry's profile increased, as PE became mainstream as an asset class for investors and as PE firms have bought larger businesses and businesses with a higher profile, the demand for greater transparency and public disclosure also increased.

In 2007, there was a considerable amount of press coverage in many countries about the role of Private Equity and in the UK there was a formal Treasury Select Committee Review. 3i played an active role in this debate and the Group's Chief Executive, Philip Yea, gave evidence at the committee with the heads of other leading Private Equity firms. During this review, 3i's 2007 Annual report was commended by the Chairman of the Treasury Select Committee, John McFall.

3i has also been very active in ensuring that there is comprehensive and timely information available online. According to IR WebReport's 2007 survey of 535 large-cap international companies, 3i's investor relations website – www.3igroup.com – ranks fifth globally and second in the global Financials sector.

The Walker review

The review by Sir David Walker in 2007, which produced "Guidelines for Disclosure and Transparency in Private Equity" in November 2007, was actively supported by 3i. 3i Group's Chairman Baroness Hogg was a member of the Review Group and Philip Yea, 3i's Chief Executive and Patrick Dunne, 3i's Communications Director were both members of the committee within the British Private Equity and Venture Capital Association ("BVCA") which proposed the review.

What was the Walker review?

In response to the growing debate about the role of Private Equity in the UK, the BVCA suggested a review be conducted by Sir David Walker, the highly-respected City figure, to examine ways in which levels of disclosure in companies backed by the UK Private Equity industry could be improved.

Sir David, Senior Advisor at Morgan Stanley International (former Chairman of Morgan Stanley International, former Executive Director Bank of England, and former Chairman of the Securities and Investments Board) chaired an independent industry working group which was tasked with drawing up a voluntary code, addressing the levels of disclosure in the industry and how it should communicate with a wide range of stakeholders.

The working group recognised the very different types of investment and issues relating to different segments of the industry from small start-up financing to large buyouts. It also took account of the size of the portfolio companies concerned. It received support from across the industry.

The working group consulted widely and invited representations from within the private equity industry, with interested parties and among other financial institutions, pension funds and the investment community as well as more broadly portfolio companies, trade unions and employer representatives.

How did 3i engage and input to the Walker process?

3i engaged with the Walker process in a very active way through the BVCA Big Buy Out committee, through its own submission to the Working Group and through the input of Baroness Hogg and other senior executives at 3i. 3i also gave its support for the recommendations when they were published in November 2007.

What were Sir David Walker's recommendations?

Sir David Walker's recommendations with respect to reporting for Private Equity firms and their relevant portfolio companies were on a "comply or explain" basis. He also had a number of recommendations for the industry as a whole.

For Private Equity firms:

The guidelines apply exclusively to UK Private Equity firms authorised by the FSA, that are managing or advising funds that either own or control one or more UK companies.

The guidelines say that such Private Equity firms should produce an annual review, accessible via a website, which:

- communicates how the Private Equity practice fits into the firm and confirm that arrangements are in place to deal with conflicts of interest;
- provides some commentary on history, investment approach and investment holding periods;
- commits to conform to the guidelines on a "comply or explain" basis;
- provides details on the leadership of the UK firm and describes the UK firms meeting the portfolio criteria below; and
- provides a categorisation of the limited partners in its funds and follows established guidelines in reporting to their limited partners.



For Private Equity backed portfolio companies:

The guidelines apply to portfolio companies which are:

- acquired by one or more private equity firms in a public-to-private transaction, where the market capitalisation together with the premium for acquisition of control was in excess of £300 million; and
- acquired by one or more private equity firms in a secondary or other non-market transaction, where the enterprise value at the time of the transaction was in excess of £500 million.

And, in each case, where more than 50% of the revenues were generated in the UK and UK employees totalled in excess of 1,000 full-time equivalents.

Portfolio companies meeting these criteria should publish annual reports and accounts on their websites within six months of the year end and include:

- the identity of the private equity fund or funds that own the company, the senior managers or advisers who have oversight of the fund or funds and detail on the composition of its board;
- a business review that substantially conforms to section 417 of the Companies Act 2006; and
- a financial review to cover risk management objectives and policies, including those relating to leverage.

Portfolio companies should also:

- publish a summary mid-year update no later than three months after mid-year; and
- provide data to the BVCA in support of its work in aggregating data for the industry as a whole.

For the industry as a whole:

- increase industry-wide reporting and intelligence and, in particular, to undertake rigorous evidence-based analysis of the economic impact of Private Equity activity; and
- establish a guidelines review and monitoring capability.

So how does 3i measure up against the Walker guidelines?

3i is fully compliant with the Walker guidelines.

As a Private Equity firm:

- 3i's annual and half-yearly reports are fully compliant;
- our 3i.com and 3igroup.com websites provide substantially more information than is required by the Walker guidelines;
- we have high levels of employee engagement. 92% of our staff took part in the latest staff survey and 3i exceeded 19 of the 20 Ipsos Mori Top Ten norms. Further information regarding employee engagement is provided in our Corporate responsibility report on page 44;
- regular surveys of shareholders evidence strong satisfaction with the level and nature of communications;
- 3i has a well-developed approach to communicating with the LP investors in the funds which it manages or advises with a regular flow of information, as well as events and meetings. Investors are also encouraged to provide feedback;
- 3i's website 3i.com contains a large number of endorsements from the management teams of portfolio companies who work with 3i;
- regular surveys of journalists' views on the industry and on the Company undertaken by Ipsos Mori show high levels of trust in 3i and satisfaction with press communications;
- 3i has a well-developed compliance function which ensures that arrangements are in place to deal with conflicts of interest. As can be seen from our Risk management report on page 38, there is a formal Conflicts Committee which reports to our Operational Risk Committee; and
- 3i provides extensive information on the leadership of the UK firm and the Group as a whole.

Portfolio companies:

3i has two portfolio companies which fit the Walker criteria for enhanced disclosure. These are Anglian Water Group Limited, an infrastructure investment, and Enterprise Group Holdings Limited, a mid-market Buyouts investment. Both of these companies were formerly public companies listed on the London Stock Exchange.

Anglian Water Group's year end is 31 March and its Annual report and accounts for the year to 31 March 2008 are expected to be published in June 2008 and expected to be fully Walker compliant. The company's website – www.awg.com – already contains a high level of disclosure.

Enterprise's year end is 31 December and its Annual report and accounts for the year to 31 December 2007 and website – www.enterprise.plc.uk – are fully Walker compliant.

This 3i Annual report also contains 15 detailed case studies comprising the two largest investments and the two largest realisations by value together with the next largest investments in the portfolio for our Buyouts, Growth Capital and Venture Capital business lines. Details of forty other large investments are also included in this report.

Information for shareholders

Financial calendar

Ex-dividend date	18 June 2008
Record date	20 June 2008
Annual General Meeting	9 July 2008
Final dividend to be paid	18 July 2008
Half-year results	November 2008
Interim dividend expected to be paid	January 2009

Information on ordinary shares

Shareholder profile Location of investors at 31 March 2008

UK (including retail shareholders)	62.4%
US	25.0%
Continental Europe	10.8%
Other international	1.8%

Share price

Share price at 31 March 2008	830.0p
High during the year (21 May 2007)	1,231.0p
Low during the year (17 March 2008)	733.5p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2008	%
1 – 1,000	23,190	1,911	9,876,257	2.58
1,001 – 10,000	3,300	1,014	9,251,738	2.42
10,001 – 100,000	103	386	16,583,696	4.33
100,001 – 1,000,000	11	255	86,921,413	22.71
1,000,001 – 10,000,000	0	71	205,897,426	53.80
10,000,001 – highest	0	4	54,210,564	14.16
Total	26,604	3,641	382,741,094	100.00

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2008.

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc, including requests for further copies of the Report and accounts, please contact:

Group Communications
3i Group plc
16 Palace Street
London SW1E 5JD
Telephone +44 (0)20 7928 3131
Fax +44 (0)20 7928 0058
email ir@3igroup.com

or visit our investor relations website, www.3igroup.com, for full up-to-date investor relations information, including the latest share price, recent annual and half-yearly reports, results presentations and financial news.



Electronic communications

If you would prefer to receive shareholder communications electronically in future, including your annual and half-yearly reports and notices of meetings, please visit our Registrars' website at www.shareview.co.uk/clients/3isignup and follow the instructions there to register.

More general information on electronic communications may also be found on our website at www.3igroup.com/e-comms

Registrars

For shareholder administration enquiries, including changes of address, please contact:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone +44 (0)870 195 6310



Frequently used Registrars' forms may be found on our website at www.3igroup.com/e-comms

3i Group plc

Registered office:
16 Palace Street, London SW1E 5JD, UK

Registered in England No. 1142830

An investment company as defined by section 266 of the Companies Act 1985.

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Investor relations website – 3igroup.com

www.3igroup.com is 3i Group's dedicated investor relations website, providing convenient access to online annual and half-yearly reports and presentations, as well as 3i's latest deal and financial news (with RSS feeds and an alert service) and a debt section. Our financial calendar and results day centre (including webcasts), historic AGM and dividend information are also on the site.

Shareholders will find tools such as share price charting, a Blackberry share price service, calculators, frequently used Registrars' forms and a dedicated email address for investor relations enquiries (ir@3igroup.com) on www.3igroup.com.

Home page:

www.3igroup.com/shareholders/

Share price look-up and calculator:

www.3igroup.com/shareholders/shareinfo/calculator/

Results day centre:

www.3igroup.com/shareholders/presreports/

Online Report and accounts:

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3i Group plc
16 Palace Street, London SW1E 5JD, UK
Telephone +44 (0)20 7928 3131
Fax +44 (0)20 7928 0058
Website www.3igroup.com

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For investor relations information, please visit:

www.3igroup.com

For other information on 3i, please visit:

www.3i.com