3i Group plc
Report and accounts 2007

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This Annual report and accounts may contain certain statements about the future outlook for 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'll 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 interim reports online

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

Front cover:
This photograph, which was taken in Madrid, comes from a collection taken by Craig Easton for 3i of cities in which we operate.

Introduction

3i is a world leader in private equity and venture capital. We focus on buyouts, growth capital, venture capital, infrastructure and quoted private equity and invest 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	2007	2006
Investment activity		
Investment	£1,576m	£1,110m
Realisation proceeds	£2,438m	£2,207m
Returns		
Gross portfolio return	34.0%	24.4%
Total return	£1,075m	£831m
Total return on opening shareholders' funds	26.8%	22.5%
Dividend per ordinary share	16.1p	15.2p
Portfolio and assets under management		
Own balance sheet	£4,362m	£4,139m
Third-party funds	£2,772m	£1,573m
Total assets under management	£7,134m	£5,712m
Balance sheet		
Gearing	0%	1%
Diluted net asset value per ordinary share	932p	739p

Portfolio value by business line as at 31 March	2007	2006
Buyouts	£1,281m	£1,465m
Growth Capital	£1,460m	£1,192m
Venture Capital	£741m	£826m
Infrastructure	£469m	£92m
Quoted Private Equity ("QPE")	£20m	–
Smaller Minority Investments ("SMI")	£391m	£564m
Total	£4,362m	£4,139m

Chairman's statement

"This has been an exceptional year for 3i. The Group has delivered a high return on shareholders' funds and a strong cash flow and, most importantly of all, has taken important steps to develop the business for the longer term."

3i has had another year of strong financial performance. A number of our strategic initiatives have contributed to our growth and it has been a very productive period for business development. The Group's total return of £1,075 million for the year to 31 March 2007 represented 26.8% on opening shareholders' funds.

Realisations were again very strong. The quality of our portfolio, favourable merger and acquisitions markets and the skill of our teams around the world have delivered realisation proceeds of £2,438 million, with an uplift in value on sale of 52%.

3i's strategic position in both high growth and more mature markets also enabled the Group to increase investment by 42% to £1,576 million. Growth was especially strong in Asia, which accounted for 16% of investment in the year.

During the year the Buyouts business raised its latest €5 billion mid-market buyout fund, Eurofund V, and we extended our international reach with new Growth Capital teams in Beijing and New York. We also established two new business lines, with the £700 million launch of 3i Infrastructure Limited on the London Stock Exchange, and the establishment of our "Quoted Private Equity" team.

Progress on so many fronts would not, of course, have been possible without the commitment and experience of many people to whom I offer my thanks: our staff world-wide; the management teams and advisers of our portfolio companies; and above all our Chief Executive Philip Yea and his Management Committee.

The strength of the Group's cash flow has meant that we have been able not only to grow investment levels and invest in a number of strategic initiatives but also to return capital to shareholders. Following approval at our Extraordinary General Meeting ("EGM") last year, £700 million has been returned to our shareholders. The Group also bought back £74 million of ordinary shares during the year. The Board has announced its intention to return a further £800 million to shareholders by way of a bonus issue of listed B shares. Resolutions relating to the return of capital proposals will be put to shareholders at another EGM, which is currently expected to take place in July.

The Board is recommending a final ordinary dividend of 10.3p, making a total ordinary dividend for the year of 16.1p, up 5.9% on last year.

I was delighted to welcome Robert Swannell as a non-executive Director to the Board in September 2006. Robert is Vice Chairman of Citigroup Europe and a member of Citigroup's Global Investment Banking Committee, in addition to being a non-executive Director of British Land Company plc. He has extensive experience of international financial services and wide experience of business.

Danny Rosenkranz, who has been a non-executive Director of the Group since 2000, retires from the Board at the AGM in July. I would like to thank him for the considerable contribution he has made to the Board during a very important period for 3i and especially for his work as Chairman of the Remuneration Committee.

As private equity has grown as an asset class for investors, so it has attracted more attention from political and business commentators. Our track record as a FTSE 100 company since 1994, and our pioneering approach to governance and corporate responsibility issues in the industry, stand 3i in good stead as the debate about responsibility and transparency in the industry develops.

As a member of Sir David Walker's working group for the British Venture Capital Association I am delighted to be involved in taking this debate to the next stage. Meanwhile, in this report you will see that we have provided further details on our largest investments and realisations in the year.

At 3i, we are proud of our record of growing businesses. We have always placed considerable emphasis on the quality of our relationships with investee companies, and on corporate responsibility, as endorsed by our high ranking in the Dow Jones Sustainability Index for 2007. I would like to congratulate our Corporate Responsibility Committee, led by the Company Secretary, Tony Brierley, on winning this year's Investor Relations Society Best Practice Award for the Corporate responsibility section of our 2006 Annual report.

In summary, this has been an exceptional year for 3i. The Group has delivered a high return on shareholders' funds and a strong cash flow and, most importantly of all, has taken important steps to develop the business for the longer term.

Baroness Hogg Chairman
9 May 2007

3i at a glance

3i Group is a private equity and venture capital business making and managing investments in Europe, Asia and the US. The Group is a FTSE 100 company, providing shareholders with liquid access to private equity returns through five types of investment activity, Buyouts, Growth Capital, Venture Capital, Infrastructure and QPE (private equity for quoted companies). Investments are made using funds from the Group's own balance sheet and from funds which the Group manages or advises for others.

3i covers a range of private equity and venture capital activity providing capital for businesses at all stages of their development.

Buyouts

Focused on leading mid-market transactions across Europe with a value of typically up to €1 billion.

Gross portfolio return

54% (2006: 29%)

Financial performance (£m) year to/as at 31 March 2007	
Investment	498
Realisation proceeds	1,341
Realised profits	538
Unrealised value movement	123
Portfolio income	127
Gross portfolio return	788
Assets under management	
Own balance sheet	1,281
Third-party funds	2,129
	3,410

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

Growth Capital

Making minority investments of typically €10 million to €250 million in established and profitable businesses across Europe, Asia and the US.

Gross portfolio return

48% (2006: 26%)

Financial performance (£m) year to/as at 31 March 2007	
Investment	482
Realisation proceeds	691
Realised profits	235
Unrealised value movement	269
Portfolio income	65
Gross portfolio return	569
Assets under management	
Own balance sheet	1,460
Third-party funds	227
	1,687

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

Venture Capital

Investing in early and late-stage technology companies in Europe and the US, with a focus on investing between €2 million to €50 million in the healthcare, IT and "cleantech" sectors.

Gross portfolio return

(6)% (2006: 17%)

Financial performance (£m) year to/as at 31 March 2007	
Investment	200
Realisation proceeds	187
Realised profits	12
Unrealised value movement	(61)
Portfolio income	3
Gross portfolio return	(46)
Assets under management	
Own balance sheet	741
Third-party funds	15
	756

For further information on Venture Capital please go to **page 20**

Group financial performance (£m) year to/as at 31 March	**2007**	2006
Investment	**1,576**	1,110
Realisation proceeds	**2,438**	2,207
Realised profits	**830**	576
Unrealised value movement	**323**	245
Portfolio income	**253**	232
Gross portfolio return	**1,406**	1,053
Assets under management		
Own balance sheet	**4,362**	4,139
Third-party funds	**2,772**	1,573
	7,134	5,712

Newly established business lines

During the year two new business lines were established as part of our strategy to use our private equity skill base, knowledge and network to grow our assets and shareholder value.

Infrastructure

Following the launch of 3i Infrastructure Limited on the London Stock Exchange, in which 3i has a 46.4% shareholding, 3i's dedicated infrastructure team now primarily advises this listed vehicle. 3i Infrastructure Limited seeks to invest in a broad range of international infrastructure assets, principally in transportation, utilities and social infrastructure.

Financial performance (£m) year to/as at 31 March 2007	
Investment	380
Realisation proceeds	5
Gross portfolio return	15
Assets under management	
Own balance sheet	469
Third-party funds	385
	854

For further information on Infrastructure please go to **page 24**

QPE

3i QPE's objective is to build a portfolio of influential equity interests in small and mid-cap quoted companies primarily in the UK and continental Europe.

The QPE team will create value with the management teams of these companies through applying 3i's private equity skill base, network and resources.

Financial performance (£m) year to/as at 31 March 2007	
Investment	14
Realisation proceeds	–
Gross portfolio return	6
Assets under management	
Own balance sheet	20
Third-party funds	–
	20

For further information on Quoted Private Equity please go to **page 25**

Chief Executive's statement

"Continued broadening of our investment activities by geography and asset class, and a focus on delivering real value within each specific opportunity, remain critical components of our strategy."

This was a further year of good progress for the Group. The Group's financial performance was very strong, in terms of new investment and divestment activity, as well as the high level of returns achieved. At the same time we are able to report further significant progress in our strategic development, most notably in the scale up of our Infrastructure business and the launch of our QPE business line.

Further significant progress in our strategic development

The first element of our strategy is to invest in high-return assets. In this regard, total return was notable at 26.8%, a figure that was beyond our expectations at the start of the year, not least because divestment conditions remained attractive throughout the period due to favourable economic conditions and the buoyancy of debt financing markets. This figure was well ahead of last year's return of 22.5%, principally as a result of both our Buyouts and Growth Capital businesses delivering exceptional gross portfolio returns on a one year basis at 53.8% and 47.7% respectively, well ahead of our through the cycle targets and last year's equivalent figures of 29.4% and 26.4%.

These results were underpinned by a high proportion of realised profits, a consequence of a record level of realisations, which at £2.4 billion for the Group, was an improvement on last year's previous record figure of £2.2 billion. Our Venture Capital business line improved its performance in the second half, reducing its negative return to (5.6)% for the full year compared to (8.4)% for the first six months.

The next elements of our strategy are to grow our assets and those we manage on behalf of third parties, as well as to extend our international reach both directly and through investing in other funds. The amount of 3i's own investment rose from £1.1 billion to £1.6 billion, an increase of 42% on last year. This rise in new investment reflects the strategic changes of the last few years, with the most significant increases coming in Growth Capital and Infrastructure on a business line basis, and within Growth Capital in Asia on a regional basis.

Asia represented 9% of the Group's portfolio value at the end of the year, an increase over last year's 4%. Assuming no change to financial markets, we are targeting a further increase in investment levels over the new financial year, with a contribution from our QPE business line and further progress in Buyouts and Growth Capital.

As a key element of our strategy is to grow the level of third-party funds under management, it is pleasing to report that these rose by 76% last year, increasing from £1,573 million to £2,772 million. This figure includes the third-party element of our most recent buyout fund, Eurofund V, which in total closed at €5 billion, a significant increase on the €3 billion raised for Eurofund IV.

Further growth in assets under management came from the launch of 3i Infrastructure Limited, a £700 million Jersey-based listed infrastructure fund to which the Group contributed assets and cash of £325 million and third-party shareholders contributed the balance of £375 million.

The Group's strategy is to raise third-party money where structurally it is necessary to do so as in the case of Buyouts, or where it optimises our shareholders' exposure to a particular asset due to the nature of the returns, such as Infrastructure. These activities can be attractive due to the opportunity to earn management, advisory and performance fees that enhance the overall level of shareholder return. Since the end of the year we have announced the signing of a Memorandum of Understanding with IIFCL, a debt financing institution set up by the Indian Government, which will pave the way for 3i to raise a further infrastructure fund dedicated to the Indian market.

These developments are also excellent examples of the fourth part of our strategy, which is to use our balance sheet and resources to develop both existing and new business lines.

With unprecedented liquidity in financing markets, as well as continued significant change in the shape of the Group's business, **the last element of our strategy, to continue to build our strong culture of operating as one company across business lines, geographies and sectors, is critical.**

All of our senior management, and in particular our Group Partners, have made it their priority to ensure that this unique 3i culture is nurtured and strengthened, through informal and formal channels. We measure our colleagues' level of engagement on an annual basis, and the 2007 figure of 87%, together with other key performance measures, is reported on page 11 of this report to shareholders.

At a time when there is increasing debate about private equity as an asset class, with concerns being raised with respect to its stewardship, its transparency and the sources of and sustainability of returns, we have chosen to increase yet again 3i's own level of disclosure in this report to shareholders. In addition to the point by point disclosure of progress against our strategy mentioned above, we are also giving greater disclosure of the financial and business progress of key investments for each of our major business lines.

We have chosen, yet again, to increase 3i's level of disclosure

Twelve months ago we announced the intention to return some £700 million to shareholders. At the time we wanted to retain sufficient resources to grow our near-term investment levels whilst maintaining strategic flexibility as we considered the development of the Infrastructure and QPE business lines. With these two initiatives now launched, and on the back of the excellent rate of realisations over the year, it is possible to recommend a further return of cash without compromising our ambition to grow assets.

Markets remain fast-changing. On the one hand the drive by major firms to increase their deal size is expanding the definition of the mid-market, which given the international spread of 3i's network is to our advantage. On the other hand, there is an increase in the number of firms contemplating investing in the growth capital market on a trans-national basis.

Prices are generally high, and so our teams remain selective in their choice of targets, focused on identifying and then driving, with management, the underlying value of each investment in order to deliver or exceed our return targets. It is important to keep the organisation of our business flexible in order to face these markets. The formation of distinct Infrastructure and QPE business lines was consistent with our policy of building internal capabilities before building assets.

We welcome the announced and actual listings of other private equity firms, whether as management companies, or funds under management. We believe that this can only be beneficial to stock markets' understanding of both the sector generally, and their appreciation of the 3i business model in particular. Just as within the public markets there are different companies with different models, so too within private equity will the market grow to understand better that various firms have different strategies, some differentiated and others less so.

An explicit choice to work in the mid-market

3i is defined by an explicit choice to work predominantly in the mid-market, by our spread of assets over 14 countries and five different asset classes, and our desire to ensure that all of our teams nurture and value our relationships with those outside the Group in a way that delivers real benefits to the companies in which we invest.

We continue to see good investment opportunities in our chosen areas, albeit that pricing remains high. Continued broadening of our investment activities by geography and asset class, and a focus on delivering real value within each specific opportunity, remain critical components of our strategy. Although levels of realisations are expected to slow, we remain confident of reporting further good progress in the delivery of our strategy over the year ahead.

Philip Yea Chief Executive
9 May 2007

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.

Introduction to the Group

3i is a world leader in private equity and venture capital with five distinct business lines 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.

There are detailed descriptions, performance data and commentaries for our Buyouts, Growth Capital and Venture Capital business lines on pages 12 to 23, together with case studies illustrating the nature and range of their investment activity. Our two new business lines, Infrastructure and Quoted Private Equity are also described on pages 24 and 25.

The Group's overall vision is to be the private equity firm of choice: operating on a world-wide scale; producing consistent market-beating returns; being acknowledged for our partnership style; and winning through our unparalleled resources. On pages 10 and 11 we have set out the strategy for achieving this vision, along with a summary of our progress, the key risk factors involved and statistics relating to our performance with respect to each key element of strategy.

3i's vision and strategy are regularly reviewed by the Group Board and the risk management framework as set out on pages 26 to 31 provides the framework for identifying, assessing and responding to risks in relation to executing that strategy and delivering our business objectives.

We operate in a number of distinct geographical and sector markets and the market for each of our business lines has its own specific characteristics. However, the environment and competitive landscape for each of them is influenced by the level of private equity funds raised and invested, the strength of the capital markets and the extent of merger and acquisitions activity. With the exception of Venture Capital, all of these influences were strongly positive during the year increasing both activity and competition, especially in Buyouts.

Overall, global private equity fundraising and investment levels were dominated by buyouts. Preliminary statistics for calendar year 2006 released by the European Private Equity and Venture Capital Association ("EVCA") in March 2007 show that European private equity firms raised a record €90 billion in 2006 (2005: €72 billion) and invested €50 billion (2005: €47 billion). According to the EVCA some 79% of funds raised and 78% of that invested related to buyouts. According to *unquote"*, the number of mid-market buyouts in Europe increased by 17% from 2005 to 2006.

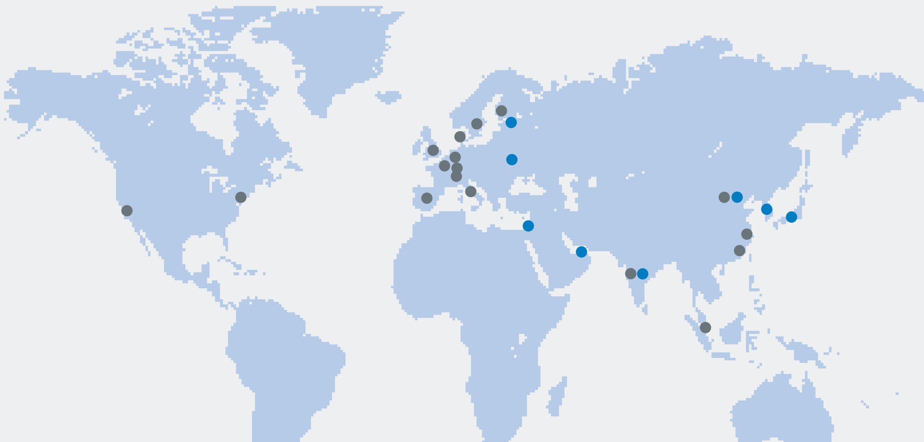
Funds raised for venture capital in Europe rose almost 50% in the year to €16 billion, according to EVCA data. Ernst & Young and Dow Jones VentureOne data shows that European venture capital investment increased by 5% to €4.1 billion and that US venture capital investment increased by 8% to $26 billion in 2006, its highest level of investment in five years.

Although there is no single source that accurately tracks the European growth capital market in which 3i operates, our own internal data suggests that there was a 65% increase in the amount invested to €4.5 billion in 2006.

According to Asian Venture Capital Journal statistics, the Asian markets in which 3i operates directly (China, India, North Asia and South East Asia) saw a 50% increase in investment.

3i is a highly-selective investor and made 62 investments during the year to 31 March 2007 (2006: 58). We make a small number of investments each year across a range of sectors, regions and types of investment. Consequently, general economic conditions have less influence than changes occurring in specific sectors.

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

Our competitive advantage comes from our international network and the strength and breadth of our relationships in business. These underpin the value that we deliver to our portfolio and to our shareholders.

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 enable us to achieve competitive advantage in originating investment opportunities, assessing them and in managing assets.

As a returns-focused business, we set clear targets for our key performance measures at a Group and business line level and these are set out in detail for each business line on pages 12 to 25.

The key Group financial performance measures are:

	2007	2006
Total return	**26.8%**	22.5%
Gross portfolio return	**34.0%**	24.4%
Gearing	**0%**	1%
Net asset value growth	**193p**	125p

The key business line performance measures are:

Gross portfolio return
Portfolio health
Long-term IRRs by vintage

We employ a relatively small number of staff (an average of 765 for the year) for a FTSE 100 company, and they work in focused teams across 23 locations in 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 professional service teams are incentivised on Group performance.

The high levels of staff engagement achieved by the Group, and reported on page 11, are 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 40 to 47. 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.

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		Progress
Invest in high-return assets	Achieving our vision and delivering our return objectives across the cycle, depends upon making high-quality investments.	– Gross portfolio return, one of the key investment performance measures, averaged 25% over the last three years. – Measures of current portfolio health for each of our business lines are strong.
Grow our assets and those we manage and advise on behalf of third parties	Combining growth in assets with our investment disciplines will enable us to grow shareholder value.	– Total funds under management grew by 25% in the year to 31 March 2007 to £7,134 million. – The average investment size (£26 million) has trebled over the last four years. – The closing of the €5 billion mid-market buyout fund, Eurofund V. – The £700 million listing of 3i Infrastructure Limited on the London Stock Exchange.
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.	– The proportion of assets outside the UK has steadily increased to 59% at 31 March 2007. – With the opening of new offices in Beijing and New York, 18 of 3i's 23 offices are now outside the UK. – The value of the portfolio in Asia rose by 123% in the year to £373 million. – 3i's investments in eight private equity funds around the world further extend our reach.
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.	– Buyouts and Growth Capital have increased investment by 77% and 51% respectively over the last three years. – Venture Capital has increased the proportion of late-stage investment from 44% to 65% during the last financial year. – During the year, two new business lines were established, Infrastructure and Quoted Private Equity.
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.	– Our 2007 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 People Programmes for Chairmen and Chief Executives are now operating in Europe, Asia and the US.

Key risk factors

- Quality of origination, review and execution processes.
- 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.

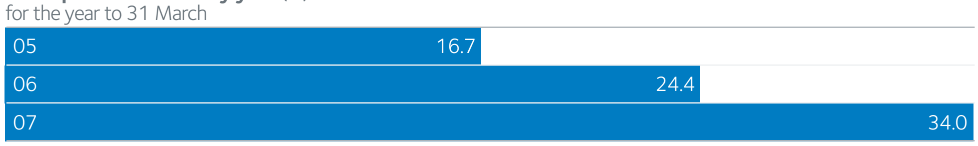
- Effectiveness of knowledge management and sharing.
- Changes in local legal and regulatory frameworks.
- Maintenance of control environment.

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

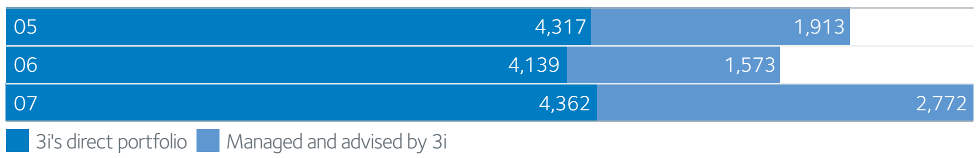
- Ability to attract, develop and retain people with requisite skills, experience and cultural fit.
- Effectiveness of knowledge management and sharing.
- Effectiveness of decision-making in matrix structure.
- Flexibility of resourcing model to adapt to change.

Performance

Gross portfolio return by year (%)
for the year to 31 March



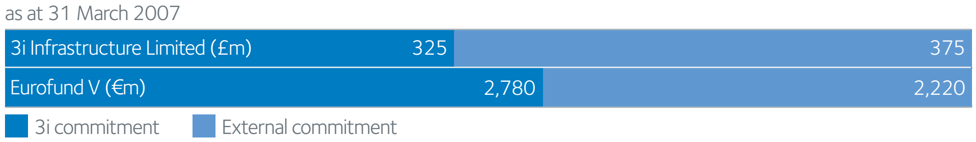
Growth in assets under management (£m)
as at 31 March



Portfolio value by geography
as at 31 March

	2007	**2007**	2006	2006
Continental Europe	**£1,894m**	**43%**	£1,923m	47%
UK	**£1,792m**	**41%**	£1,736m	42%
Asia	**£373m**	**9%**	£167m	4%
US	**£283m**	**7%**	£307m	7%
Rest of World	**£20m**	**–**	£6m	–
Total portfolio value	**£4,362m**	**100%**	£4,139m	100%

Funds raised
as at 31 March 2007



Employee engagement
The 2007 staff survey in which 78% of staff took part showed engagement up three points to 87% (2006: 84%). High scores from questions which test employee engagement have a direct positive impact on employee retention and productivity.

Business review Buyouts

"An excellent year for 3i Buyouts in a very competitive market. Our performance and market position, combined with our new €5 billion Eurofund V, position the business well for future growth."

Gross portfolio return on opening value	Gross portfolio return
54%	**£788m**

Long-term IRRs (£m)

years to 31 March	Total[1] investment	Return flow	Value remaining	IRR to 31 March 2007	IRR to 31 March 2006
2007	396	4	401	**9%**	n/a
2006	439	351	352	**47%**	3%
2005	335	482	267	**54%**	38%
2004	297	387	109	**30%**	32%
2003	261	620	58	**50%**	49%

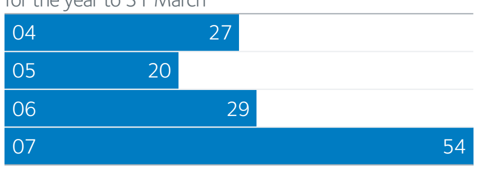
1 Total investment relating to each vintage, including subsequent investments.

Financial performance (£m)

year to/as at 31 March	2007	2006
Investment[2]	**498**	451
Realisation proceeds	**1,341**	877
Realised profits	**538**	208
Unrealised value movement	**123**	124
Portfolio income	**127**	115
Gross portfolio return	**788**	447
Assets under management		
Own balance sheet	**1,281**	1,465
Third-party funds	**2,129**	1,090
	3,410	2,555

2 First and further investment made in the year in all vintages.

Gross portfolio return by year (%)
for the year to 31 March



For an explanation of IRRs please go to **pages 108 and 109**

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 across Europe of typically up to around €1 billion in value. Investments are made through a Limited Partnership private equity fund vehicle (currently Eurofund V), which is managed by 3i (see Fund management section opposite). Returns from individual investments are achieved through a mix of income, returns of capital and capital realisation upon exit. 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 pan-European team with full economic alignment. This enables resources to be matched to opportunities across Europe on a "best team for the job" basis, allowing 3i to pursue larger and more complex transactions than smaller funds.

Strategy

The core elements of strategy relate to origination and value creation. As part of 3i Group, an extensive origination network is combined with pan-European decision making, sector expertise and access to high-quality operational expertise. This provides the opportunity to be able to choose the best 12 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 and using 3i's network, knowledge and expertise to maximum effect. These value creation plans are benchmarked and reviewed by a team of experienced partners on a pan-European basis. An illustration of the range of business transformation possible through this approach can be seen from the case studies on pages 14 and 15.

Extending our international reach has also been a component of our strategy. During the year a team was established to focus on central and eastern European investments.

This team made its first investment shortly after the 31 March year end. Our latest fund, the €5 billion Eurofund V, also has the capacity to invest up to 10% of its capital in companies outside Europe.

Marketplace

The mid-market buyout market in Europe remains buoyant. In calendar year 2006 this segment, defined as deals between €25 million and €1 billion deal size, according to *unquote"*, represented some 470 transactions with an aggregate deal value of €67 billion (2005: 402 transactions, €69 billion).

It is a highly fragmented and competitive marketplace with 283 different firms completing transactions in 2006 (2005: 227).

Increased market activity has been driven by an increase in the capital allocated by institutions to buyout funds attracted by the recent track record of returns on buyouts generally and a benign economic environment which presents favourable investment conditions and low corporate default rates. There has also been a plentiful source of debt from traditional lenders and, increasingly, from institutional investors such as collateral debt and loan obligation funds.

Increased competition continues to put upward pressure on deal entry pricing multiples. Therefore, in this environment, we have remained highly-selective buyers and active sellers.

Investment and realisations

We invested £383 million (2006: £360 million) in 12 new transactions in the year (2006: 14). Investment including co-investment funds was £615 million (2006: £525 million). Although the amount of investment was ahead of the previous year, the number of transactions was marginally lower as we remained highly selective.

In addition to new investments, £115 million of further investments were made into the existing portfolio, which included sizeable acquisitions made by portfolio companies such as Carema.

Realisation activity was also very strong with total proceeds of £1,341 million (2006: £877 million) or £2,089 million including co-invested funds (2006: £1,477 million). Significant realisations during the year included SR Technics, NCP Off Street and Vetco Gray, all businesses which had been significantly developed, where employment had grown and which attracted good prices due to their future growth prospects.

Gross portfolio return

The Buyouts business line generated a gross portfolio return of £788 million in the year to 31 March 2007 (2006: £447 million). As can be seen from the chart opposite, this represented some 54% (2006: 29%) of opening portfolio value, demonstrating the continuing effectiveness of our business model.

Realised profits up 159% to £538 million were responsible for 68% of gross portfolio return. The unrealised value movement was £123 million (2006: £124 million).

Portfolio health

The health of the Buyouts portfolio remains robust. The realised loss rate on total investments since the new business model was introduced in 2001 was 1% as at 31 March 2007, and the level of provisions taken for the same period was 4% of total investment at cost as at 31 March 2007 (2006: realised loss rate 1%, provision rate 2%).

Fund management

During the year we successfully closed Eurofund V with €5 billion of commitments, exceeding our initial target of €3.5 billion. The fund attracted 62 Limited Partners, approximately half of whom are based in Europe, a third in North America and the balance in the Middle East and Asia Pacific.

This year saw the final investment made by the predecessor €3 billion fund, Eurofund IV. By 31 March 2007, four new investments had been completed by Eurofund V, which started investing in January 2007.

The performance of Eurofund IV continues to remain strong in comparison to market benchmarks for funds of a similar vintage. At 31 March 2007, Eurofund IV had already returned 76% of its drawn commitments, with a significant portfolio value still remaining.

Fund management fees and carried interest receivable by 3i amounted to £118 million (2006: £103 million).

A list of current funds, together with details relating to their size and the size of 3i's commitment, can be found on page 38.

Long-term IRRs

We have a target "through the cycle" IRR of 20% on each vintage and look to achieve aggregate money multiples in excess of two times the original cost we invest.

Our 2003 vintage has delivered a strong performance with an IRR of 50% at 31 March 2007, a large proportion of which is driven by realised profit. The 2004 and 2005 vintages continue to perform well (30% and 54% IRRs respectively), with the strong performance of the 2005 vintage being driven by exits in the year of Keolis, Vetco Gray, Damcos, Interflora, Jung Pumpen, and KBBI.

The 2006 vintage, although still relatively immature, is already showing strong performance assisted by the early positive realisations of NCP Off Street and Nordic Modular.

Jonathan Russell Managing Partner

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.

Dockwise

New investment
Location: Benelux
Sector: Oil, Gas & Power
Website: www.dockwise.com

First investment

3i's Eurofund V invested €173m in January 2007 to enable the buyout and expansion of Dockwise.

Nature of business

A dutch-based marine contracting company focused on servicing the oil and gas industry with transportation and installation services. Dockwise owns and operates 15 semi-submersible vessels, and has a building program of six additional vessels to come on line by the end of 2008.

Results to 31 December	2006 (audited) $m
Sales	252
EBITDA	102

Current trading

Performance in 2006 was better than expected due to higher net charter income. Market conditions at the end of 2006 and going into 2007 were favourable with strong demand for oil rig transportation particularly for those being built in Asia.

Developments since 3i invested

Dockwise was the first investment made by Eurofund V in January 2007. 3i's Oil, Gas & Power sector team is working closely with the Dockwise management team to implement the business plan. In April 2007 a successful refinancing of the business was completed, returning $64m to 3i and Eurofund V investors (3i: $36m). In May 2007 Dockwise merged with Norwegian OTC listed Sealift, generating proceeds of $264m for 3i and investors in Eurofund V, who retain a 29.5% holding in the combined group.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**65**	n/a
Directors' valuation		
Equity and loan	**65**	n/a
Equity interest	**49%**	n/a
Income in the year	**2**	n/a

Mayborn

New investment
Location: UK
Sector: Consumer
Website: www.mayborngroup.com

First investment

3i's Eurofund IV invested £58m in July 2006 to fund the £137m public-to-private buyout of Mayborn and its planned expansion.

Nature of business

A UK-based manufacturer and distributor of branded and own-label baby (75% of sales) and household products (25% of sales). Market leading brands include Tommee Tippee (baby products) and Dylon (fabric dyes).

Results to 31 December	2005 (audited) £m
Sales	76
EBITDA	13

Current trading

Since our investment in July 2006 the business has performed in line with expectations, with full year sales expected to be up on prior year and an improved cash flow.

Developments since 3i invested

In July 2006, former International President of Burger King, Nish Kankiwala, was appointed CEO through 3i's introduction. A detailed business plan is currently being implemented which aims to further internationalise the business.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**49**	n/a
Directors' valuation		
Equity and loan	**49**	n/a
Equity interest	**36%**	n/a
Income in the year	**5**	n/a

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

Coor

Investment
Location: Nordic
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

A provider of Total Facilities Management in the Nordic region, Coor's services include workplace support, property support, telephony and security and production support.

Results to 31 December	2005 (audited) SEKm
Sales	2,524
EBITDA	269

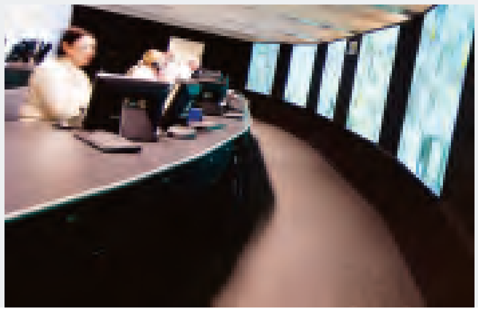
Current trading

Both revenue and EBITDA have grown strongly since the buyout, driven by successful contract wins in the wider Nordic region. In particular, Coor has achieved substantial organic growth in Norway.

Developments since 3i invested

Coor 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%. 3i's network has assisted Coor in winning a number of significant contracts in the Nordic region.

3i Group plc's investment as at 31 March	**2007 £m**	2006 £m
Cost		
Equity and loan	**30**	27
Directors' valuation		
Equity and loan	**72**	52
Equity interest	**38%**	38%
Income in the year	**2**	2



NCP

Realisation
Location: UK
Sector: Support Services
Website: www.ncp.co.uk

First investment

3i's Eurofund IV invested £121m in September 2005 to enable the £555m buyout of NCP from Cinven and to provide capital to develop NCP Services.

Nature of business

NCP Group comprised NCP Off Street, providing services ranging from city-centre car park management to rail and airport parking; and NCP Services, providing traffic enforcement and management services to local authorities, Transport for London and government agencies.

Results to 31 December	2005 (audited) £m
Sales	439
EBITDA	42

Developments since 3i invested

3i has utilised its sector knowledge and experience in Support Services and Outsourcing to assist in the development of NCP. Total workforce grew from 4,500 at the time of the buyout to 6,200 in early 2007. New contracts have enabled NCP Services to grow revenue; it now has a turnover approaching £140m.

During 2006, the decision was taken to form NCP Services as a distinct company in order to maximise value. In March 2007, NCP Off Street was sold to Macquarie for £790m, generating a realised money multiple of three times for 3i and investors in Eurofund IV, who retain a combined 76% shareholding in NCP Services.

3i Group plc's return on investment as at 31 March	**2007 £m**	2006 £m
Cost		
Equity and loan	**3**	96
Realised value		
Equity and loan	**264**	n/a
Unrealised value		
Equity and loan	**26**	96
Equity interest	**42%**	40%
Income in the year	**16**	12

SR Technics

Realisation
Location: Switzerland
Sector: Transport & Logistics
Website: www.srtechnics.com

First investment

3i's Eurofund III invested €97m in December 2002 to enable the €425m management buyout of SR Technics from the administrators of SAirGroup (Swissair) and to significantly reposition the business.

Nature of business

A provider of integrated technical services and fleet management to the commercial aviation sector.

Results to 31 December	2005 (audited) CHFm
Sales	1,362
EBITDA	146

Developments since 3i invested

The business was transformed from what was essentially the technical department of a flag-carrying airline into a world market-leader. SR Technics has expanded its customer and product base and its geographic reach, especially in Asia and the Middle East. It acquired FLS Aerospace, in a €140m transaction in 2004. New contracts reduced dependence on SWISS (formerly Swissair) from 45% to 14% of revenue.

In October 2006, SR Technics was sold to a UAE consortium for €1bn, generating a money multiple of 4.5 times for 3i and Eurofund III investors. During 3i's investment, sales grew from CHF 942m to approximately CHF 1.5bn and employment from 2,900 to 5,000.

3i Group plc's return on investment as at 31 March	**2007 £m**	2006 £m
Cost		
Equity and loan	**n/a**	37
Realised value		
Equity and loan	**163**	n/a
Unrealised value		
Equity and loan	**n/a**	100
Equity interest	**0%**	32%
Income in the year	**1**	3

Business review Growth Capital

"An excellent year for the Growth Capital business with strong investment, especially in Asia. Our focus on continuing to build our capabilities and extend our reach has further strengthened our proposition to high-growth companies around the world."

Gross portfolio return on opening value

48%

Gross portfolio return

£569m

Long-term IRRs (£m)

years to 31 March	Total[1] investment	Return flow	Value remaining	**IRR to 31 March 2007**	IRR to 31 March 2006
2007	430	1	416	**(2)%**	n/a
2006	397	167	417	**35%**	1%
2005	174	158	136	**35%**	32%
2004	293	330	132	**25%**	21%
2003	222	339	79	**25%**	22%

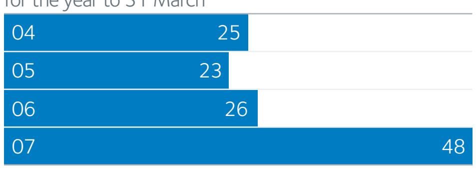
1 Total investment relating to each vintage, including subsequent investments.

Financial performance (£m)

year to/as at 31 March	**2007**	2006
Investment[2]	**482**	497
Realisation proceeds	**691**	855
Realised profits	**235**	232
Unrealised value movement	**269**	60
Portfolio income	**65**	49
Gross portfolio return	**569**	341
Assets under management		
Own balance sheet	**1,460**	1,192
Third-party funds	**227**	401
	1,687	1,593

2 First and further investment made in the year in all vintages.

Gross portfolio return by year (%)
for the year to 31 March



For an explanation of IRRs please go to **pages 108 and 109**

Business model

The Growth Capital business, which has a team of over 100 investment professionals in Europe, Asia and the US, targets cash-to-cash IRR returns of 20% through the cycle. These returns are achieved through a mix of dividend and interest income, returns of capital and capital realisation upon exit. A highly-selective approach to investment is taken with 20 to 30 minority transactions completed each year, investing typically €10 million to €250 million from 3i's own balance sheet in each situation. The purpose of the investment may include supporting organic growth, funding for acquisitions, to resolve succession issues or simply to reduce gearing.

Another key element of the business model is to have a portfolio which is diversified by region, sector, investment type and size of business. Aligning interests between 3i and the majority owners of the company, who are typically the management, underpins the delivery of targeted returns.

The Growth Capital business line also manages some third-party funds which include pre-Eurofund IV buyout co-investment funds which had a mandate to make growth capital investments.

In recognition of the increased significance and potential of infrastructure as a separate asset class, a new business line "Infrastructure" was established during the year. Prior to this, the Growth Capital business line also managed 3i's infrastructure investing activity. Accordingly, whilst all of the performance data for the year to 31 March 2007 regarding gross portfolio return, investment and realisations excludes Infrastructure, comparatives have not been restated. In addition, long-term performance IRRs exclude those assets which formed part of the Infrastructure portfolio at 1 April 2006. Information on the performance of the new Infrastructure business line can be found on page 24.

Strategy

Our strategy is to capitalise on 3i's competitive advantages in this market which are principally our track record, experience, global network and the flexibility afforded to us by investing from our own balance sheet.

Over the last five years we have increased the average size of each investment significantly (2007: £26 million, 2003: £6 million), targeting larger companies which are more likely to have international operations or aspirations.

3i's expansion in Asia and the US has increased the opportunity to leverage our network, People Programmes and sector expertise for the benefit of the companies in which we invest. For each opportunity, we assemble the "best team for the job" with the most relevant geographical, sector and transactional experience drawn from the global team.

Marketplace

The market in the last year has both grown and become more competitive. Global market statistics are somewhat inconsistent but the general consensus is that the market for growth capital investments grew by around 20% in terms of value.

Although the mandates of many private equity funds preclude them from making minority investments and few competitors can currently access permanent capital to fund their investments, competition has increased in several regions due to new entrants. These include US growth specialists entering the European market, hedge funds starting to take minority positions in private rather than public companies and mezzanine funds moving towards private equity as mainstream banks encroach on their traditional markets.

In Asia, general economic development has driven opportunity, especially in consumer-related sectors. Competition varies from market to market, with India being the most competitive.

Investment and realisations

Our strategy is to accelerate the development of the business in Asia and to increase the average size of investment globally. At £258 million (2006: £91 million) Asia represented 54% of the £482 million (2006: £497 million) invested in the year. Excluding infrastructure investment (£89 million) from the 2006 total, Growth Capital investment grew by 18%.

The average size of the 21 Growth Capital investments (2006: 18) made during the year was £26 million (2006: £21 million), with the two largest being Singapore-based ACR Limited at £105 million and Spanish-based STEN at £78 million. Both of these investments, together with our two largest realisations (SeLoger in France and Alimak in Sweden) and our next largest portfolio company DIAB, also from Sweden, are profiled in more detail on pages 18 and 19.

Realisation performance was once again strong with total realisations of £691 million (2006: £855 million), delivering realised profits of £235 million (2006: £232 million). The majority of proceeds arose from the sale of portfolio companies to trade buyers. In addition, four companies achieved an IPO. The largest of these was SeLoger, a £41 million 2005 investment which achieved a listing on the Paris Stock Exchange in December 2006 since when 3i has realised £98 million.

Gross portfolio return

The Growth Capital business line generated a gross portfolio return of £569 million in the year to 31 March 2007 (2006: £341 million). As can be seen from the chart opposite, this represents a return of 48% (2006: 26%) on opening portfolio value.

Realised profits, which were up 1% to £235 million, produced 41% of gross portfolio return. The unrealised value movement of £269 million (2006: £60 million) included £129 million of uplifts to imminent sale on assets, of which £60 million has been realised since the year end.

Post 2002 vintages have performed particularly strongly, contributing 57% of gross portfolio return in the period, demonstrating the effectiveness of our business model.

Portfolio health

A favourable macroeconomic environment, the focus on a smaller number of higher-value investments, together with a global approach to assessing opportunities and more international deal and portfolio management teams, have led to a significant reduction in the level of portfolio write-downs over the last two years. Provisions of £1 million were made in the year, the lowest level for a number of years. As at 31 March 2007, 92% of our investments were classified as healthy, against a three year rolling average of 81% (2006: 84%, and 74%).

Long-term IRRs

The long-term vintage IRRs from this business line have been above target in recent years and the younger vintages, which are of greater size, are already showing encouraging signs. Indeed, returns from the investments made in the year to 31 March 2006 have already achieved a 35% return, ahead of our expectations at this stage in the evolution of the vintage.

Management

In November 2006 we announced that Guy Zarzavatdjian would succeed Michael Queen as Managing Partner, Growth Capital in April 2008. This was to allow Michael to become full-time Managing Partner of 3i's Infrastructure business line. To facilitate this transition, Guy became responsible for Growth Capital in Europe on 1 January 2007, reporting to Michael.

Michael Queen Managing Partner Growth Capital and Infrastructure (pictured left)

Guy Zarzavatdjian Managing Partner Growth Capital Europe and Managing Partner Growth Capital designate (pictured right)

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.

ACR

New investment
Location: Singapore
Sector: Financial Services
Website: www.asiacapitalre.com

First investment
3i invested £105m in November 2006, out of a total funding of £316.8m, to create Asia's first exclusively pan-Asian focused independent re-insurer.

Nature of business
A Singapore-based independent re-insurer addressing the property and casualty insurance industry. ACR's focus is on specialty lines of re-insurance in the large risks segment for aviation, marine, energy, large infrastructure and engineering projects across Asia. ACR has an 'A-' financial strength rating from AM Best rating agency.

Results for the five months to 31 March	2007 (unaudited) US$m
Sales	27.0
EBITDA	–
Net assets	608.8

Current trading
Revenue generation in the first few months following launch was good and market reaction to ACR has been favourable.

Developments since 3i invested
The initial focus has been on building a high-quality board to support John Tan, ACR's CEO, as well as establishing operational processes and gaining market acceptance for this new model. Thaddius Beczak has been appointed as chairman, through 3i's introduction.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**105**	n/a
Directors' valuation		
Equity and loan	**102**	n/a
Equity interest	**32%**	n/a
Income in the year	**0**	n/a

Sistemas Técnicos de Encofrados (STEN)

New investment
Location: Spain
Sector: Construction
Website: www.sten.es

First investment
3i invested £78m in September 2006 to support the growth of STEN's business through domestic and international expansion.

Nature of business
A leading provider of formwork and scaffolding systems for sale or rental to construction works in Spain, Portugal and Poland.

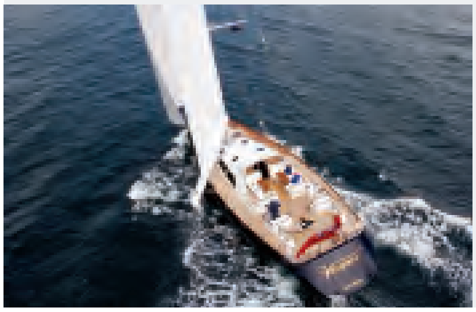
Results to 31 December	2005 (audited) €m
Sales	128.3
EBITDA	52.7
Net assets	69.0

Current trading
Following a 23.5% rise in revenue in 2006, the outlook for 2007 is favourable with further growth in revenue and EBITDA anticipated as a consequence of STEN's competitive positioning.

Developments since 3i invested
A strengthened sales force, combined with international expansion, have placed STEN in a strong position. 3i has worked with management to introduce management information systems and further professionalise the company.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**78**	n/a
Directors' valuation		
Equity and loan	**78**	n/a
Equity interest	**29%**	n/a
Income in the year	**0**	n/a

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



DIAB

Investment
Location: Sweden
Sector: Chemical Products
Website: www.diabgroup.com

First investment
3i acquired its investment in DIAB through the acquisition of Atle in April 2001 and has since supported the international expansion of DIAB.

Nature of business
DIAB is one of the world's largest manufacturers of structural core materials. The company's markets include marine, wind energy, transportations, aerospace and industry.

Results to 31 December	2006 (audited) SEKm
Sales	1,205
EBITDA	298
Net assets	409

Current trading
DIAB's strong performance has been driven by improvements in operational efficiency, favourable market conditions and product innovation.

Developments since 3i invested
Growth in new products, expansion in customer base and geographical extension have all contributed to strong financial performance and an improved market positioning.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**44**	90
Directors' valuation		
Equity and loan	**77**	35
Equity interest	**48%**	48%
Income in the year	**0**	1

Alimak Hek

Realisation
Location: Sweden
Sector: Engineering
Website: www.alimakhek.com

First investment
3i acquired its investment in Alimak Hek for £15m through the acquisition of Atle in April 2001.

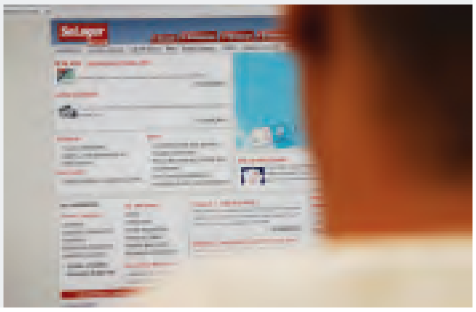
Nature of business
A global leader in the manufacture and distribution of rack and pinion-based vertical access systems.

Results to 31 December	2005 (audited) SEKm
Sales	1,192
EBITDA	117
Net assets	339

Developments since 3i invested
Revenue and EBITDA growth of 39% and 101% over the past year have been driven by organic growth and acquisitions. This and the company's US and Asian expansion, in which 3i has been particularly instrumental, placed Alimak in a market-leading position. In January 2007, the company was sold for £75m to Triton, and 3i realised £55m of profit, representing a money multiple of 4.5 times and an IRR of 33%.

Employment in the company grew from 855 in 2001 to 908 at the time of the sale.

3i Group plc's return on investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**n/a**	15
Realised value		
Equity and loan	**75**	n/a
Unrealised value		
Equity and loan	**n/a**	19
Equity interest	**0%**	50%
Income in the year	**0**	0



SeLoger.com

Realisation
Location: France
Sector: Other Services
Website: www.seloger.com

First investment
3i invested £41m in November 2005 to support the rapid expansion of the company both organically and through acquisition.

Nature of business
France's leading classified advertisements website operator for the real estate sector.

Results to 31 December	2006 (audited) €m
Sales	37.8
EBITDA	17.0
Net assets	130.5

Developments since 3i invested
SeLoger.com's market position was strengthened through the acquisitions of Dataleads and Pericles. This, combined with organic growth, enabled the company to successfully IPO on the Paris stock market in December 2006. 3i realised £76m on flotation and then sold its remaining shares for £22m in March 2007. The combined proceeds of £98m represented a cash multiple of 2.5 times 3i's initial investment and an IRR of 135%.

Employment in the company grew from 120 at the end of 2005 to 185 at the time of the IPO.

3i Group plc's return on investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**n/a**	41
Realised value		
Equity and loan	**98**	n/a
Unrealised value		
Equity and loan	**n/a**	41
Equity interest	**0%**	33%
Income in the year	**0**	0

Business review Venture Capital

"A challenging year for Venture Capital returns but a year in which we strengthened our team and achieved the necessary changes to become more focused on late-stage investing."

Gross portfolio return on opening value

(6)%

Gross portfolio return

£(46)m

Long-term IRRs (£m)

years to 31 March	Total[1] investment	Return flow	Value remaining	**IRR to 31 March 2007**	IRR to 31 March 2006
2007	123	4	115	**(2)%**	n/a
2006	80	3	81	**5%**	–
2005	81	–	80	**(1)%**	–
2004	137	67	120	**14%**	36%
2003	116	26	41	**(19)%**	(19)%

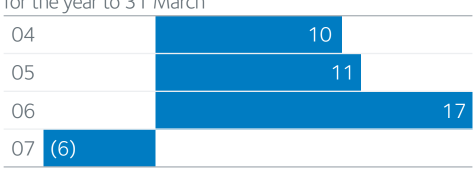
1 Total investment relating to each vintage, including subsequent investments.

Financial performance (£m)

year to/as at 31 March	**2007**	2006
Investment[2]	**200**	156
Realisation proceeds	**187**	207
Realised profits	**12**	72
Unrealised value movement	**(61)**	51
Portfolio income	**3**	5
Gross portfolio return	**(46)**	128
Assets under management		
Own balance sheet	**741**	826
Third-party funds	**15**	30
	756	856

2 First and further investment made in the year in all vintages.

Gross portfolio return by year (%)
for the year to 31 March



Business model

The Venture Capital business targets cash-to-cash IRR returns of 25% through the cycle.

With an early and late-stage technology focus, our Venture Capital team of 47 investment professionals works as a global team across six offices in Europe and the US. Returns, which are achieved principally through realisations, have a higher volatility than the Group's other business lines. The purpose of the investment is usually to move a technology business from an early or development stage through to revenue and profit.

A highly-selective approach is taken with around 20 new investments made each year of between €2 million and €50 million in companies new to the portfolio.

Our value proposition is based on the scale of 3i's network of relationships within and outside the venture industry, the proactive involvement of 3i's investment team, the ability to provide multiple investments and our deep knowledge of core technology sectors.

As can be seen from the Financial performance table, the majority of Venture Capital investment is made directly from 3i's balance sheet. We also manage third-party funds of £15 million in Asia.

Strategy

By operating as a single team, 3i's international reach, which is fundamental to our value proposition to entrepreneurs and syndicate investors, is delivered to highly-specialised segments of the technology industry.

For an explanation of IRRs please go to **pages 108 and 109**

Activity has been focused on early (30%) and late (70%) stage investment in healthcare, IT and cleantech. Our preference is to lead or co-lead investments, and invest in companies with significant growth potential, disruptive technologies and strong management. We select opportunities where we can create and realise significant value, take board seats and achieve exits via trade sale or IPO.

This strategy is now working well in the US where our scale and international offering appeals to more mature venture businesses.

Reflecting the increased focus on later-stage investing, we changed our resourcing mix during the year. In the US we recruited Jim McLean, who has almost two decades of venture capital experience, to run our business there. We also consolidated our US team in Silicon Valley and made plans to close our Waltham office.

Marketplace

According to reports from Ernst & Young and Dow Jones VentureOne, European venture capital investment at €4.1 billion and the number of venture IPOs (90) in 2006 were at their highest since 2002 and 2000 respectively.

In the US, the equivalent report stated that US venture capital investment in 2006 increased by 8% to $26 billion. Fifty six venture IPOs were completed raising $3.7 billion, an increase of 33% and 64% on 2005 respectively.

Despite the increased amount of investment in both the US and Europe, the actual number of deals dropped 27% in Europe and was only slightly ahead in the US, when compared with 2005.

Corporate acquisitions of venture-backed companies in Europe decreased by 12% with 185 acquisitions made, and in the US the number and value of acquisitions were flat.

The competitive landscape is changing with fewer but larger funds being raised in both Europe and the US. This more selective environment is reflected in the US as the number of active venture capital firms there continues to shrink with many firms not raising new funds.

The main quoted technology indices, NASDAQ and techMARK, rose 3.5% and 7.9% respectively during the year.

Gross portfolio return

Due to a weaker market for realisations and reduced share prices of several quoted assets in the Venture Capital portfolio, both realised and unrealised profits were lower than last year. As a consequence we delivered a negative return of £(46) million, which represented (6)% on the opening portfolio. The unrealised loss on the quoted part of the Venture Capital portfolio was £(64) million in total and, although spread over a number of assets, the fall in the share price of Vonage was most significant. Vonage, a US asset in which 3i first invested in 2004, accounted for £49 million of the unrealised value loss in the year.

Net realised profits of £12 million (2006: £72 million) resulted from a number of smaller disposals as we continued to focus the portfolio.

Our performance for the year at the gross portfolio return level was therefore disappointing despite the modest recovery in the second six months of the year.

Investment and realisations

In line with our strategy, the increase in later-stage investments resulted in total investment of £200 million (2006: £156 million) during the year of which 46% was in the US and 40% was in the UK.

A total of £123 million (2006: £64 million) was invested in 20 companies which were new to the portfolio. Late-stage investment accounted for 65% (2006: 44%) of total investment. The average size of a late-stage investment during the year was £13 million.

This investment included £1 million of a £5 million total commitment in DT Capital Partners fund in China to provide a window on this rapidly-growing venture market.

There were a total of 35 realisations during the year delivering proceeds of £187 million and realised profits of £12 million. Five companies from the portfolio achieved IPOs: Vonage; Eleksen; Newron; Santhera; and Omniture.

The case studies on pages 22 and 23 include the most valuable exit of the year, Domantis, from the 2004 vintage.

Portfolio health

Portfolio health is more volatile in Venture Capital than 3i's other business lines but at 31 March 2007, 69% of the portfolio companies were classified as healthy, against a three year rolling average of 67% (2006: 67% and 65%).

Long-term IRRs

The significant changes that we have made to the venture business in the last two years are having a positive influence on earlier vintages but the main effects will be seen from the 2006 vintage and in subsequent years. Currently the 2007 vintage is showing a small negative IRR of (2)%, in line with expectation at this stage in the vintage's life cycle.

Jo Taylor Manager Partner

Demand Media

New 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.

Nature of business
Next generation media platform with significant media properties and one of the largest domain portfolios.

Results to 31 December	2006 (unaudited) $m
Sales	78.9
EBITDA	17.9
Net assets	232.5

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 fill-in acquisitions.

Developments since 3i invested
Demand Media has released its new media platform that includes social networking, user publishing and optimisation/monetisation. In addition, it has successfully closed and integrated three acquisitions since 3i invested.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**21**	n/a
Directors' valuation		
Equity and loan	**20**	n/a
Equity interest	**8%**	n/a
Income in the year	**0**	n/a

EUSA Pharma

New investment
Location: EU and US
Sector: Healthcare
Website: www.eusapharma.com

First investment
3i invested $50m in March 2007 as part of a $175m fund raising round to provide capital to acquire and develop a portfolio of pharmaceutical products.

Nature of business
A specialty pharmaceutical company focused on oncology, pain and critical care.

Results to 31 December	2006 (unaudited) $m
Sales	0
EBITDA	(1.2)
Net assets	9.2

Current trading
EUSA's focus is on growing a portfolio of specialty hospital medicines. The first of these, Rapydan, is due to be launched in Sweden in the first half of 2007, followed by a phased roll out across the EU. During 2007, EUSA will have a marketing capability in the five major European markets as well as Scandinavia, Benelux, Austria, Ireland and Portugal.

Developments since 3i invested
EUSA acquired French-based OPi in March 2007 and plans are underway to develop an effective US capability facilitating access to the North American specialty pharmaceutical market. The company now employs 93 people.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**26**	n/a
Directors' valuation		
Equity and loan	**26**	n/a
Equity interest	**22%**	n/a
Income in the year	**0**	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.

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

Newron Pharmaceuticals

Investment
Location: Italy
Sector: Healthcare
Website: www.newron.com

First investment

3i first invested in March 1999, investing €17.9m in total as part of several early-stage fund raising rounds which raised €62.2m to support the research and development activity.

Nature of business

Biopharmaceutical company focused on novel therapies for diseases of the Central Nervous System and pain (ie Parkinson, Alzheimer, Epilepsy).

Results to 31 December	2006 (audited) €m
Sales	1.2
Profits after tax	(16.4)
Net assets	1.0

Current trading

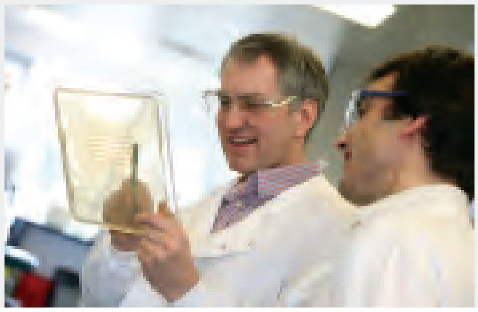
The key financial metrics for biotechnology companies at this stage of development relate to their cash position and rate of spending. A net loss of €16.4m for the year to 31 December 2006 was largely due to higher research and development spending.

Developments since 3i first invested

Newron achieved an IPO on the SWX Swiss Exchange which raised €74m in December 2006, thus giving it a strong cash position, and signed a global development and commercialisation agreement with Merck Serono worth up to $200m plus royalties.

Employment in the company grew from eight when 3i first invested in March 1999 to 38 in December 2006.

3i Group plc's investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**12**	12
Directors' valuation		
Equity and loan	**23**	13
Equity interest	**15%**	24%
Income in the year	**0**	0



Domantis

Realisation
Location: UK
Sector: Healthcare
Website: www.domantis.com

First investment

In February 2004, 3i invested £4.2m as part of a £17.5m early-stage fund raising round to support research and development.

Nature of business

A pre-clinical stage biotechnology company focused on next-generation human antibody products.

Results to 31 March	2006 (audited) €m
Sales	1.7
Profits after tax	(7.3)
Net assets	23.6

Developments since 3i invested

3i was instrumental in assisting Domantis to successfully develop and implement a strategy to build a commercial presence in the US and in the recruitment of a new chairman and CFO. This, combined with the company's technical development, made Domantis attractive to industry leaders and the company was acquired by GlaxoSmithKline for £230m in January 2007. The proceeds for 3i represented a cash multiple of over 4 times 3i's investment and an IRR of 98%.

Employment in the company grew from 40 when 3i first invested to 70 at present.

3i Group plc's return on investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**n/a**	4
Realised value		
Equity and loan	**24**	n/a
Unrealised value		
Equity and loan	**2**	5
Equity interest	**0%**	14%
Income in the year	**0**	0

Interhyp

Realisation
Location: Germany
Sector: Financial Services
Website: www.interhyp.de

First investment

In July 2000, 3i invested €7.2m to support early-stage growth following the company's formation in 1999.

Nature of business

A provider of mortgage broking services in Germany, Interhyp has redefined this highly fragmented market by combining the benefits of the internet with independent consultancy.

Results to 31 December	2006 (audited) €m
Sales	70.6
EBIT	22.4

Developments since 3i invested

Interhyp has developed from a start-up company with less than 20 employees to become the market-leading internet mortgage broker in Germany, with 28,000 mortgage financings arranged with a value of €4.4bn and a staff of 377 in 2006. Strong revenue growth enabled Interhyp to grow EBIT in 2006 by 73% despite a sluggish mortgage market in Germany over the last few years.

After a successful IPO in September 2005, 3i sold its remaining shares in March 2007. In total 3i realised £47.5m from this investment, delivering an IRR of 48% and money multiple of over 9 times.

3i Group plc's return on investment as at 31 March	2007 £m	2006 £m
Cost		
Equity and loan	**n/a**	2
Realised value		
Equity and loan	**23**	24
Unrealised value		
Equity and loan	**n/a**	27
Equity interest	**0%**	6%
Income in the year	**0**	0

Business review Infrastructure

"Our first year as a distinct business line has seen the successful launch of 3i Infrastructure Limited, and our reach extended in continental Europe, Asia and the US. Together, these initiatives made for a good year and provide a strong base from which to build future asset growth in this rapidly-expanding market."

Business model

Building on 3i's experience of making infrastructure investments for over 20 years, the Group established a distinct Infrastructure business line during the year. Infrastructure assets and returns had previously been reported as a part of the Growth Capital business line.

The objective was to facilitate the expansion of 3i's business in this rapidly-growing market internationally and also to prepare for the launch of a listed investment vehicle, 3i Infrastructure Limited, which is advised exclusively by 3i and in which 3i Group plc has a 46.4% stake.

The business model for the Infrastructure business line is to achieve a blended return through a combination of returns earned on assets (invested either directly by 3i or indirectly through 3i Infrastructure Limited) and advisory and performance fees earned from advising external funds such as 3i Infrastructure Limited.

An annual advisory fee paid by 3i Infrastructure Limited to 3i is based on the fair value of 3i Infrastructure Limited's investments at 1.5% for investments when initially acquired, reducing to 1.25% for investments held for longer than five years. A performance fee of 20% is earned by 3i on the total return above an 8% performance hurdle at the end of a financial period.

Strategy

A dedicated international team of 14 investment professionals has a geographical focus on Europe, Asia and the US through four hubs: London; Frankfurt; Mumbai; and New York. These investors target three main sub sectors: social infrastructure (eg PFI projects, hospitals, education, and government accommodation); utilities (eg water, gas, electricity distribution); and transportation (eg roads, airports, ports, rail and ferry operations).

An example in the utilities sector was the £251 million AWG investment. Anglian Water, AWG's principal business, is the fourth largest Ofwat regulated water and waste-water company, with 4.2 million water and 5.4 million waste-water customers.

Marketplace

Infrastructure businesses tend to be asset-intensive businesses providing essential public services over the long term, often on a regulated basis or with a significant component of revenue and costs that are subject to long-term contracts.

There is a substantial market opportunity for new and replacement infrastructure in developing and more mature economies. Increasing recognition by governments of the value that the private sector can bring to infrastructure has also grown demand.

The combination of these factors has resulted in a significantly growing asset class.

3i Infrastructure Limited

3i Infrastructure Limited listed on 13 March 2007 with a market capitalisation of £700 million. 3i's infrastructure investments in Europe and the US are now made mainly through the 3i Infrastructure listed company.

3i's initial investment in 3i Infrastructure Limited was provided by transferring four seed assets with a value of £234 million and investing £91 million in cash. Three assets, Alpha Schools, Octagon Holdings and Infrastructure Investors (I^2), were transferred in full (£94 million). Osprey (AWG) was transferred in part (£140 million) with the balance (£111 million) remaining on the 3i balance sheet, as 3i Infrastructure Limited is not permitted to hold more than 20% of its portfolio cost in any individual asset.

The board of 3i Infrastructure Limited, which is chaired by Peter Sedgwick, a former member of the management committee of the European Investment Bank, comprises four independent non-executive directors. A fifth non-executive director is Paul Waller, a member of 3i's Management Committee.

At 31 March 2007, 3i's 46.4% shareholding, including associated warrants, in 3i Infrastructure Limited was valued at £334 million.

3i Infrastructure Limited is expected to publish its first interim results in November 2007.

Gross portfolio return

The Infrastructure business line generated a gross portfolio return of 16% on opening portfolio value in the year to 31 March 2007. Of the return, £12 million relates to the transfer of assets to 3i Infrastructure Limited and income yield on the portfolio. A further £8.6 million unrealised profit was generated from the increase in 3i Infrastructure Limited's share price and associated warrants since flotation.

Investment and realisations

During the year, the Infrastructure team made new investments of £251 million in Osprey (AWG) and £6 million in T2C. In addition, further drawdowns of £32 million were made by I^2 and Alma Mater to fund the purchase of new assets in those funds.

The only disposals made were transfers of assets to 3i Infrastructure Limited and proceeds from a partial realisation in the Alma Mater fund.

Portfolio

In addition to the £334 million value of 3i's holding in 3i Infrastructure Limited at 31 March 2007, the Group continues to hold direct investment in four assets not transferred to 3i Infrastructure Limited with a value of £135 million, the largest of these being the retained holding in Osprey (AWG) with a value of £111 million.

Michael Queen Managing Partner

For further information on Infrastructure please visit **www.3i-infrastructure.com**

Business review Quoted Private Equity ("QPE")

"The potential market for QPE's offering is very significant and we will take a highly-selective approach, creating value with the management teams of these companies through 3i's private equity skill base, network and resources."

Business model

This new business line was established to address a significant market opportunity to provide equity finance and added value to small and mid-cap quoted companies in Europe. The QPE team will aim to deliver private equity value creation techniques to public companies without taking them private. A number of small and mid-cap quoted companies in Europe suffer from a lack of strategic focus or direction; are typically relatively under-researched by the capital markets; and frequently suffer from relatively limited liquidity in their shares, in some cases exacerbated by shareholders with significant holdings who may be sellers. We believe that the operating performance of many such companies could be significantly improved by applying private equity techniques.

QPE will acquire influential stakes in selected companies and will have flexibility in the size of its equity investment. We will aim to avoid competing on price with traditional buyout funds or other buyers seeking 100% ownership. As portfolio companies will remain listed, existing investors will have a choice of whether to sell to QPE or to remain invested, sharing in the value which may be created by enhancing the investee companies' operational performance.

QPE's business model is differentiated from typical buyout funds which generally require total ownership as a condition of any offer for a public company; are typically restricted in the planned holding period for any investment; and are generally required to pay a significant premium over current trading prices in order to secure full control.

Strategy

The initial geographic focus of QPE's activity is in Europe and QPE will use 3i's sector resources and geographic deal origination network to build a view of each relevant sector and identify potential investment candidates. Investments will only be made on the basis of a strategic plan for each situation, which will include some or all of the following key elements:

– Governance – the strengthening of boards and executive management to ensure a direct connection between shareholders' interests and the operational delivery of performance;

– Management and incentives – the enhancement of management capabilities together with the introduction or strengthening of incentive structures designed to drive sustained growth in shareholder value;

– Value creation plan – the rigorous construction of strategic, operational and financial objectives set out over a clear timeline, starting with a "100-day" plan and transitioning into monthly performance milestones; and

– Active ownership – the strategic and practical input required to drive earnings growth and accelerate enhanced shareholder value, which may include identifying opportunities for acquisitions or disposals by the investee company.

3i's track record, network, People Programmes, sector resources and private equity skill base mean that this should be a compelling offering to many public companies. QPE will also seek to provide further value by appointing at least one of its Partners to the board.

Marketplace

Research undertaken by 3i has identified approximately 2,300 companies with market capitalisation between €100 million and €2 billion quoted on major European exchanges. This research has also highlighted that in 2006 there were approximately 25 public-to-private transactions of all sizes involving private equity funds on these exchanges. Therefore, the potential market for QPE's offering, which is differentiated from either an "activist fund" or "Public-to-Private" approach, is very significant. However, QPE will take a highly-selective approach to this opportunity and aims to invest in only eight to 12 situations during its first two years.

Bruce Carnegie-Brown Managing Partner

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. Following a review of the Group's risk management processes in the year, a new monitoring framework was implemented, with a number of new committees providing input to Group Risk Management Committee. This 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
- Will recommend asset allocation decisions and monitor portfolio composition through six-monthly reviews

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 and risks

Regulatory Risk Forum
Provides regulatory input to investment policy. Identifies and promotes awareness of regulatory developments and risks

Risk type	Brief description	Further information	Risk mitigation
External	Risks arising from political, legal, regulatory, economic policy and competitor changes	– Chairman's statement – Chief Executive's statement – Business review, Group business section	– 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	– Business review, Group business, Our strategy section	– 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	– Business review, Financial review section – Financial statements, Ten largest investments	– 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	– Business review, Financial review section – Financial statements, Notes to the financial statements	– 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	– Corporate responsibility report	– 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

The main components of each risk type and related risk mitigation measures are described overleaf. Further information can also be found under the relevant report sections referred to above.

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, a wholly owned subsidiary of 3i, is an authorised person under the Financial Services and Markets Act 2000 and regulated by the FSA in the United Kingdom. Where applicable, certain 3i Group 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 at both the business line and Group levels to monitor exposure to any one sector or geography and to monitor the exposure to larger investments.

Investment valuations and exit opportunities

The valuation of 3i's unquoted portfolio and opportunities for realisation 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. The Group considers the maximum credit risk to be the carrying value of the asset. An increase in concentration of the portfolio in a particular 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 portfolio is well diversified and, for this reason, credit risk exposure is managed on an asset-specific basis by individual investment managers.

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 to co-invest in mid-market buyout transactions. It 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 address 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. 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, as described earlier.

Foreign exchange risk

3i reports in sterling and pays dividends from its sterling profits. The Group seeks to reduce structural currency exposures by matching 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 Legal and Regulatory Risk Forum which meets at least four times a year to review and plan for forthcoming legal and regulatory changes which could impact the Group.

Business review Financial review

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

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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Buyouts	**326**	248	**169**	203	**–**	–	**–**	–	**3**	–	**498**	451
Growth Capital	**212**	234	**11**	168	**258**	91	**–**	–	**1**	4	**482**	497
Venture Capital	**15**	53	**81**	31	**1**	–	**92**	70	**11**	2	**200**	156
Infrastructure	**6**	–	**374**	–	**–**	–	**–**	–	**–**	–	**380**	–
QPE	**–**	–	**14**	–	**–**	–	**–**	–	**–**	–	**14**	–
SMI	**1**	3	**1**	3	**–**	–	**–**	–	**–**	–	**2**	6
Total	**560**	538	**650**	405	**259**	91	**92**	70	**15**	6	**1,576**	1,110

Investment
A total of £1,576 million was invested from our balance sheet during the year in 62 new assets, including the £91 million cash investment in 3i Infrastructure Limited (2006: £1,110 million, 58 new assets). Buyouts accounted for 32% of this total investment; Growth Capital 31%; Infrastructure 24%; and Venture Capital 13%. Investment made on behalf of co-investment funds, principally in Buyouts, was £290 million (2006: £212 million).

This represents a year-on-year increase of 42% in investment and followed an increase in the average size of new investment for the year to £26 million (2006: £15 million). The two largest new investments for each of Buyouts, Growth Capital and Venture Capital are profiled on pages 14, 18 and 22.

The increase also reflects, in line with our strategy, the significant growth of investment in Asia, which included transactions in China, India and Singapore, totalling £259 million (2006: £91 million). The significant rise in investment in the UK included the £251 million investment in AWG. US Venture Capital investment, principally in later-stage situations, also grew by 31% and accounted for 6% of total Group investment in the year.

The Group invested a further £77 million in private equity funds of which £26 million was in new funds (Ithmar Capital L.L.C., Korea Global Fund L.P., D T Capital Partners, Indiareit Offshore Fund and the SVG Strategic Recovery Fund II). Commitments to these five new funds totalled £81 million.

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	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Buyouts	**617**	471	**724**	406	**–**	–	**–**	–	**–**	–	**1,341**	877
Growth Capital	**435**	293	**203**	453	**53**	66	**–**	43	**–**	–	**691**	855
Venture Capital	**61**	84	**69**	89	**1**	1	**56**	33	**–**	–	**187**	207
Infrastructure	**–**	–	**5**	–	**–**	–	**–**	–	**–**	–	**5**	–
QPE	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
SMI	**46**	43	**168**	225	**–**	–	**–**	–	**–**	–	**214**	268
Total	**1,159**	891	**1,169**	1,173	**54**	67	**56**	76	**–**	–	**2,438**	2,207

Realisations
The ability to capitalise on continued favourable market conditions throughout this year gave rise to realisation proceeds of £2,438 million (2006: £2,207 million).

Once again, this represented a high level of portfolio activity resulting in some 39% of the total opening portfolio value being realised in the year (2006: 38%). Europe continued to represent the majority of realisations, with the continental European portfolio contributing £1,159 million (2006: £891 million), and the UK £1,169 million (2006: £1,173 million). Realisations from the portfolio in Asia of £54 million came principally from Chinese investments.

The nature of realisations followed a broadly similar pattern to last year with 37% of proceeds arising from trade sales (2006: 31%) and 8% through refinancing portfolio businesses (2006: 8%). Sales to other private equity firms, so-called "secondaries", amounted to £651 million (2006: £404 million). Ten portfolio companies achieved an IPO during the year and realisations from these and other quoted portfolio companies amounted to £240 million (2006: £372 million).

The SMI portfolio delivered realisations of £214 million from 233 investments (2006: £268 million, 278 investments). Consistent with our strategy, this portfolio, which is now valued at £391 million, has been reduced from 1,079 companies as at 31 March 2004 to 293 at 31 March 2007, realising £916 million in the process.

Returns

Total return

3i achieved a total return for the year ended 31 March 2007 of £1,075 million (2006: £831 million), which equates to a 26.8% return on opening shareholders' funds (2006: 22.5%). This was a very strong result for the year, the most significant component of which was realised profits of £830 million (2006: £576 million).

Gross portfolio return at £1,406 million (2006: £1,053 million) for the year represented 34.0% on opening portfolio value (2006: 24.4%), of which more than 80% was crystallized in the form of realised profits, interest and dividends, and unrealised profits on uplifts to sale in respect of assets sold shortly after the end of the financial year.

After adding carried interest receivable and external fees and deducting carried interest payable and operating expenses, the net portfolio return for the year was £1,127 million (2006: £881 million) representing 27% of opening portfolio value (2006: 20%).

Total return by year (%)
for the year to 31 March

*As restated for last year's adoption of IFRS.

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

Table 3: **Total return**
for the year to 31 March

	2007 £m	2006 £m
Realised profits on disposal of investments	**830**	576
Unrealised profits on revaluation of investments	**323**	245
Portfolio income	**253**	232
Gross portfolio return	**1,406**	1,053
Fees receivable from external funds	**37**	24
Net carried interest	**(61)**	15
Operating expenses	**(255)**	(211)
Net portfolio return	**1,127**	881
Net interest payable	**(9)**	(17)
Movements in the fair value of derivatives	**(29)**	(78)
Exchange movements	**(31)**	47
Other	**(2)**	19
Profit after tax	**1,056**	852
Reserve movements (pension, property and currency translation)	**19**	(21)
Total recognised income and expense ("Total return")	**1,075**	831

Table 4: **Unrealised profits/(losses) on revaluation of investments**
for the year to 31 March

	2007 £m	2006 £m
Earnings multiples*	**5**	41
Earnings growth	**142**	95
First-time uplifts	**142**	70
Provisions	**(29)**	(62)
Up rounds	**15**	3
Uplift to imminent sale	**139**	97
Other movements on unquoted investments	**(54)**	(29)
Quoted portfolio	**(37)**	30
Total	**323**	245

*The weighted average earnings multiple applied to investments valued on an earnings basis for 2007 was 11.6 (2006: 12.2).

Realised profits
The high level of realisations was also accompanied by a significant increase in the level of uplift achieved on sale of 52% (2006: 35%), resulting in realised profits of £830 million (2006: £576 million). This exceptional rate of uplift is in part attributable to a small number of high-value realisations being sold, some still valued at original investment cost. The most significant of which was the partial disposal of NCP, described in more detail on page 15.

Realised profits are stated net of write-offs of £27 million (2006: £66 million).

Unrealised value movement
The unrealised profit on revaluation of investments was £323 million (2006: £245 million). £139 million of this movement arises from revaluations due to imminent sales (2006: £97 million), including Smart & Cook and Clínica Baviera.

A further £142 million (2006: £70 million) is attributable to first time uplifts from cost, particularly in relation to the Buyouts portfolio. Assets valued on an earnings basis at the beginning and end of the financial year also showed an increase of £147 million (2006: £136 million). Offset against these positive movements was a net decrease in the value of the quoted portfolio of £(37) million, principally due to share price movements in the Venture Capital investments Vonage and CSR plc.

Portfolio income
Portfolio income of £253 million (2006: £232 million) includes £158 million (2006: £133 million) of interest and £81 million (2006: £75 million) of dividends, as well as £14 million (2006: £24 million) of net deal-related fees.

The increase in interest income results from a number of high-yielding Buyout investments made in the year together with some early redemption premiums related to the strong realisations in the year. Dividends benefited from some significant distributions from our investments in unquoted funds. Lower levels of negotiation fee income together with increasing deal-related fee costs, underlie the reduction in net fee income.

Gross portfolio return

In aggregate, realised profits, unrealised value growth and portfolio income gave rise to a total gross portfolio return for 2007 of £1,406 million (2006: £1,053 million). From a business line perspective, Buyouts and Growth Capital were the main contributors, delivering gross portfolio returns of 54% (2006: 29%) and 48% (2006: 26%) respectively. For both business lines, these returns were above our across-the-cycle expectations, and reflect favourable market conditions for realisations, good portfolio health and earnings growth. In contrast, despite a stronger second half of the year, the Venture Capital business line generated a negative gross portfolio return of (6)% (2006: 17% positive). This was largely a consequence of adverse movements in the value of its quoted portfolio, but also due to a less advantageous realisations market.

The new Infrastructure business line contributed £15 million to gross portfolio return as a result of income yield on the portfolio, profit on the transfer of assets to 3i Infrastructure Limited and a subsequent rise in the share price of 3i Infrastructure Limited (and its associated warrants) since flotation.

The SMI portfolio generated a positive gross portfolio return of £74 million (2006: £137 million) representing 13% (2006: 18%) of opening portfolio value.

A commentary on gross portfolio return for each business line is contained on **pages 13, 17, 21 and 24**

Table 5: **Gross portfolio return by business line**
for the year to 31 March

	Gross portfolio return		Return as a % of opening portfolio	
	2007 £m	2006 £m	**2007 %**	2006 %
Buyouts	**788**	447	**54%**	29%
Growth Capital	**569**	341	**48%**	26%
Venture Capital	**(46)**	128	**(6)%**	17%
SMI	**74**	137	**13%**	18%
Infrastructure	**15**	n/a	**16%**	n/a
QPE	**6**	n/a	**n/a**	n/a
Gross portfolio return	**1,406**	1,053	**34%**	24%

Gross portfolio return by year (%)
for the year to 31 March

*As restated for last year's adoption of IFRS.

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.

Fees receivable from external funds

Following the successful launch of Eurofund V, fees receivable from our managed funds have increased substantially in the year to £37 million (2006: £24 million).

Net carried interest

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 fund investors. 3i receives carried interest from the co-investment funds managed by 3i Investments plc, and pays carried interest to investment staff based on the performance of its assets under management. An explanation of carried interest is provided on pages 110 to 111, together with a description of our accounting methodology.

Carried interest receivable of £81 million (2006: £79 million) relates primarily to two managed funds, Eurofund III and Eurofund IV, which account for 80% of the accrued income. Investments in these funds have performed particularly strongly in the period and the Group has accrued its entitlement to carried interest based on the realised profits generated in the funds and the fair value of unrealised assets at 31 March 2007.

In the prior year, most of the carry receivable related to Eurofund III, which achieved its performance hurdle in that year.

There has been a substantial increase in carried interest payable to investment staff in the year. The Group has accrued £142 million of carried interest payable across all its business lines, based on the realised profits generated by assets in carry schemes and the closing value of assets that remain unrealised (2006: £64 million). The increase is due to the strong gross portfolio return in Buyouts and Growth Capital in the financial year, and the high proportion of realisations being made from the most recent vintages, all of which are in market-aligned carried interest schemes with typically higher carry rates than earlier vintages. Of the £142 million charge in the year, 63% relates to Buyouts and 35% to Growth Capital.

Costs
Operating expenses totalled £255 million (2006: £211 million). Approximately one-third of the £44 million increase in costs relates to expenses associated with implementing new strategic initiatives such as the establishment of the two new business lines (Infrastructure and QPE), continued development in Asia and the US, as well as the move of our office in London. In addition, the exceptional level of total return has generated correspondingly higher levels of performance payment to employees.

We have continued to reshape our regional network with new offices added in Beijing and New York, the closure of four smaller regional offices in Europe and the decision to focus our US venture activity in Silicon Valley and to close our office in Waltham, Massachusetts. Restructuring costs in the year for these changes totalled £8 million.

Net operating expenses for the year (after offsetting fee income from external funds) are 5.3% of opening portfolio value. With effect from 1 April 2007 we are adopting a further key performance measure to monitor cost efficiency. We expect this measure to reduce to around 4.5% in the next two to three years, with a long-term target of 3%.

Net interest payable for the year was £9 million (2006: £17 million), reflecting the low level of net borrowings maintained throughout the year.

Other movements
The two largest "other" movements in the year relate to Exchange movements and the movements in the fair value of derivatives.

The movements in the fair value of derivatives relate largely to the valuation of the equity derivative embedded in the €550 million 2008 Convertible Bond. This unrealised value movement accounted for a gross charge of £(62) million in this category. It is the product of a number of factors, the most significant of which was the Company's share price which rose 21% during the year to 1136p (2006: 941p). Offsetting this movement were net movements on interest-rate swaps used to hedge the portfolio. A number of these swaps were closed out profitably during the period to reflect changes in the proportion of the sterling portfolio.

Exchange movements of £(31) million (2006: £47 million) arose as a result of the weakening of both the US dollar and the Euro during the year.

Portfolio and assets under management

Assets under management
At 31 March 2007 assets under management totalled £7,134 million (2006: £5,712 million). This comprised £4,362 million of portfolio assets owned directly (2006: £4,139 million), co-investment funds of £2,387 million (2006: £1,573 million) and external quoted investment companies of £385 million (2006: nil).

The main contributors to this 25% growth in assets under management were the closing of 3i's latest mid-market buyout fund, Eurofund V, in November 2006 at €5 billion and the £700 million launch of 3i Infrastructure Limited on the London Stock Exchange in March 2007. 3i Group's commitment to Eurofund V is €2,780 million and the Group's investment in 3i Infrastructure Limited was valued at £334 million at 31 March 2007.

Portfolio assets directly owned by the Group
The value of the portfolio at 31 March 2007 was £4,362 million (2006: £4,139 million).

In line with our strategy, the number of companies in the portfolio was reduced further during the year. At 31 March 2007 there were 762 companies in the portfolio compared with 1,087 at the start of the year and 1,878 just three years ago. The SMI programme again made another significant contribution to this reduction with 233 exits during the year. This reduction, combined with higher realisations in other business lines, means that more than two-thirds of the portfolio is now less than three years old, and 36% is less than one year old.

The portfolio is well diversified by business line. The high level of realisations in the Buyouts business has resulted in the value of the Buyouts portfolio falling by 13% despite increasing investment by 10%. This has increased the proportion of the Buyout portfolio held for less than three years from 64% to 83%.

Excluding Infrastructure investment (£89 million) from the 2006 total, Growth Capital investment grew by 18% in the year, and the proportion of the portfolio represented by Growth Capital increased to 33%. During the year, £234 million of portfolio assets were transferred to 3i Infrastructure Limited, £92 million of which was included in Growth Capital as at 31 March 2006.

Geographically, significant growth in investment in Asia led to an increase in the proportion of the portfolio value in that region, rising from 4% to 9% during the year. The continental European portfolio now represents 43% (2006: 46%) of total value with the UK representing 41% (2006: 42%) and the US portfolio 6% (2006: 7%).

The Group also increased its investment in private equity funds . As a consequence, the value of this portfolio of investments at 31 March 2007 was £64 million (2006: £25 million). These investments are included within the respective business line totals in table 6 and geographies in table 7.

Assets managed and advised by 3i
These assets principally relate to Buyouts, where there are three current funds in operation, and to Infrastructure, where our investment in 3i Infrastructure Limited includes the provision of advisory services to the company on an exclusive basis.

Chart A: **Assets under management** (£m)
as at 31 March

	2007	2006
3i direct portfolio	**4,362**	4,139
Third-party advised and managed	**2,772**	1,573
Total	**7,134**	5,712

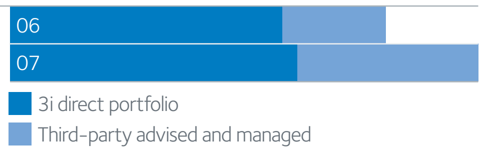


Table 6: **Portfolio value by business line and age** (£m)
as at 31 March

	Up to 1yr	1-3yrs	3-5yrs	5-7yrs	Over 7yrs	**2007**	2006
Buyouts	461	599	148	23	50	**1,281**	1,465
Growth Capital	449	579	200	159	73	**1,460**	1,192
Venture Capital	205	233	129	99	75	**741**	826
Infrastructure	451	–	18	–	–	**469**	92
QPE	20	–	–	–	–	**20**	–
SMI	4	10	14	35	328	**391**	564
Total	1,590	1,421	509	316	526	**4,362**	4,139
Percentage	36	33	12	7	12		

Table 7: **Portfolio value by geography** (£m)
as at 31 March

	2007	2006
Continental Europe	**1,894**	1,923
UK	**1,792**	1,736
Asia	**373**	167
US	**283**	307
Rest of World	**20**	6
Total	**4,362**	4,139

Table 8: **Managed funds**

Fund	Date closed	Fund size €m	3i commitment €m	Invested at 31 March 2007 %
Eurofund III	1999	1,990	995	90%
Eurofund IV	2004	3,067	1,941	90%
Eurofund V	2006	5,000	2,780	1%

Balance sheet

Capital structure and gearing

3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash. The Board is committed to achieving capital efficiency for the Group and remains of the view that a gearing ratio of debt to shareholders' funds of between 30% and 40% is appropriate across the cycle given both the current profile of the business and its plans for development.

During the year, £774 million was returned to shareholders by way of the B share arrangements (£700 million) and an on-market share buy-back programme (£74 million), as approved by shareholders at an Extraordinary General Meeting and the Annual General Meeting in July 2006.

Despite a 42% increase in investment, repurchases of B shares amounting to £689 million and the aforementioned buy-backs of ordinary shares, the Group ended the year ungeared (0%), with a net cash balance of £1 million (2006: 1% geared, equating to net borrowings of £56 million). At 31 March 2007 there were B shares outstanding at an issued value of £11 million.

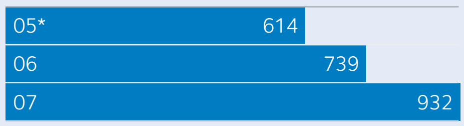
On 29 March 2007, the Board announced its intention to return a further £800 million to shareholders by means of a bonus issue of listed preference shares and approval for this issue will be sought at an Extraordinary General Meeting expected to take place in July 2007. Had this further £800 million return taken place before the year end, it would have resulted in gearing of 23% on a pro forma basis at 31 March 2007.

Growth in diluted net asset value

Diluted net asset value ("NAV") per share was 932p at 31 March 2007, which compares with 739p at 31 March 2006, a net increase of 193p.

This increase comprises 236p attributable to the total return of £1,075 million in the year, offset by the combination of the dilutive impact of the £700 million return of capital (14.5p), share buy-backs (1p), the payment of the interim and final dividends (15.5p) and other adjustments (12p), which together totalled 43p.

Diluted NAV per share by year (pence)
as at 31 March



*As restated for last year's adoption of IFRS.

Diluted NAV shows the net assets attributable to each share in issue after adjusting for the effect of share options and other instruments convertible into shares.

Corporate responsibility report

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.

Our approach

Philosophy

As an international business operating in 14 countries with over 750 employees world-wide, we aim to conduct our business in a socially responsible manner. We are committed to being a responsible member of the communities in which we operate and recognise the mutual benefits of engaging and building relationships with those communities. We believe that respect for human rights is central to good corporate citizenship.

In everything we do, we aim to be commercial and fair, to maintain our integrity and professionalism and to respect the needs of shareholders, staff, suppliers, the local community and the businesses in which we invest.

We aim to be a responsible employer and have adopted corporate values and standards designed to help guide our employees in their conduct and business relationships. These values and standards are an integral part of our culture.

We endeavour to comply with the laws, regulations and rules applicable to our business and to conduct our business in accordance with established best practice in each of the countries in which we operate. Environmental, ethical and social responsibility issues and standards are also taken into consideration in every aspect of the business.

Responsibilities and accountabilities

The Board as a whole is responsible for ethical standards. The executive Directors are responsible for ensuring compliance with 3i's corporate values and standards.

For further information on our approach to CR please visit **www.3igroup.com/shareholders/cr/**

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.

As Chairman of the Committee, Tony Brierley, has specific responsibility for 3i's environmental 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.

Recognition for transparency

3i's Corporate responsibility report for 2006 was awarded top place at the UK 2007 Investor Relations Society Best Practice Awards in April 2007. The 2006 Annual report as a whole was one of four short-listed for the best Annual Report: Most Effective Communication FTSE 100 award.

3i is proud to be one of the BitC's "Top 100 Companies that count".

3i is a constituent of the 2007 Dow Jones Sustainability Index.

As an investor

Investment policy

3i has a portfolio of over 750 investments in businesses across Europe, Asia and the US. As an investor, corporate governance is a priority and account is taken of environmental, ethical and social issues when making investment decisions.

We believe it is important to invest in companies whose owners and managers act responsibly on environmental, ethical and social matters. We therefore aim to invest in companies which:

– respect human rights;

– comply with current environmental, ethical and social legislation;

– have proposals to address defined future legislation; and

– seek to comply with their industry standards and best practice.

We recognise that the most significant risks to 3i's short-term and long-term value from environmental, ethical and social matters arise from its investment business. If a company in which 3i has an investment acts irresponsibly on corporate responsibility issues, this may affect the monetary value of that investment and, as a shareholder in that company, raise reputational issues for 3i.

Although we do not have day-to-day operational control over the companies in which we invest, we do have the opportunity to influence the behaviour of these businesses. We expect and encourage the companies in which we invest to take a responsible approach to the conduct and governance of their business and to put in place governance structures, policies and processes appropriate to the nature and scale of the business and the markets in which it operates. This is supported through the training of investment staff and non-executive Directors who are appointed to the boards of investee companies and the raising of awareness within investee companies of social, environmental and ethical issues. 3i is also active in promoting good governance in the private equity industry through the provision of tutors for courses run by the BVCA and the EVCA.

Investment procedures

We have policies and procedures to reduce the risks of investing in businesses which operate in an environmentally, ethically or socially unacceptable manner. Details of these policies and procedures may be found on 3i's website at www.3igroup.com.

When reviewing businesses for potential investment, investment executives are required to consider whether any corporate responsibility risks arise and, if any risks are identified, to follow 3i's corporate responsibility investment procedures. 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. Alternatively, it may be decided not to proceed with the investment.

All new investment opportunities are the subject of a process of filtering and review. When a potential new investment opportunity is first identified by an investment professional, it is added to the Company's work in progress list ("Work in Progress"). Following a preliminary appraisal of the potential investment opportunity, a decision is taken by the investment professional's local team as to whether the investment opportunity merits further work. At this stage the opportunity is reviewed in detail by a group of senior and experienced investment executives in the relevant business line (known as the "Partner Review"). If it is agreed through the Partner Review process that a particular investment opportunity should continue to be pursued, the Partner Review process will also agree what further in-depth analysis and due diligence should be undertaken.

The decision to continue to pursue a particular investment opportunity will be taken against a number of criteria and policies, including commercial, financial, sector, geographic, environmental, ethical and social considerations. Following a Partner Review, and providing the results of the detailed analysis and due diligence of the opportunity are positive, the investment opportunity will be submitted for formal approval. At this stage, any potential environmental, ethical or social issues in the investment opportunity will be formally identified and a decision taken against 3i's investment policies and procedures whether to proceed with the proposed investment, and if so, on what basis.

Over the year 1,054 potential new investments were placed in Work in Progress, 196 of which proceeded to a Partner Review and 62 new investments were approved and completed.

Where, after an investment has been made, we become aware that an investee company is not operating in an acceptable way, we will seek to use our influence to encourage improvement. Where that is not possible, we will seek to dispose of the investment. Over the course of the year, all existing investments in the portfolio were the subject of review.

Relationship management

Our key relationships are with the boards of the companies in which we invest, together with the intermediaries, advisers and consultants used to facilitate investment and portfolio management. We actively engage with these groups to benchmark our performance and improve our investment procedures and skills.

As a corporate

As an employer

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

Employees are organised in small teams and a spirit of co-operation is encouraged to ensure 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.

Our Chief Executive plans 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.

A conference was also held in London for all 3i's staff world-wide. The objectives of this conference included reinforcing 3i's "One room: One firm" philosophy, emphasising that whilst 3i's 750 plus staff may work in many different locations and markets across the world, it operates as one firm with a strong culture working across borders and harnessing the knowledge and skills of its people from across the world.

Our people

Employee engagement is the extent to which employees are committed to their role, their team and the Group and its objectives. How effective and productive they are as a result of this commitment and levels of retention are indicators of engagement.

World-wide conference

Our "One room: One firm" culture is key to our success and the value that we bring to the companies in which we invest. Although working across three continents in small highly-focused teams, with just over 750 employees it is feasible for 3i to bring all of our staff together in one room. Our 2006 conference, which was attended by over 700 staff, was a great success and one of the highest-rated sessions at the conference was on community involvement.

Every two years a comprehensive confidential employee survey of staff is conducted which includes a number of questions that have a proven correlation to employee engagement. The last survey was conducted in 2005/06. In order to monitor progress a "mini-survey" of the employee engagement questions only was conducted during the year. The response rate, at 78%, was high, with an overall average of the favourable responses to the questions of 87%. This was 3% higher than the average for the same questions in 2005/06. Not only are the individual scores significantly higher than the 2005 Ipsos MORI Top Ten norm (which was used to benchmark the full 2005/06 survey), but favourable scores of over 95% were recorded against the statements "I am always looking for ways to do my job better", "I am committed to helping 3i to achieve its objectives" and "I am proud to work for 3i".

3i has comprehensive behaviour policies to help ensure that employees treat their colleagues and others with courtesy and respect. 3i's Guide to Business Conduct sets out the rules and guidelines we expect all of our staff to follow with the objective of ensuring that we maintain professional standards in all aspects of the conduct of our business.

3i also has a whistle-blowing policy setting out procedures for staff to raise in confidence matters of concern, for an appropriate and independent investigation of such matters and, where necessary, for follow-up action.

Training and development

We are committed to encouraging the continuous development of our staff with the objective of maximising 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, 306 employees attended 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.

Environmental Awareness Day

In March 2007, an environmental awareness day was held for 3i's London-based staff to report our progress on reducing 3i's CO_2 emissions and to raise awareness on practical ways in which staff can help at work and at home. The event was also attended by the Chairman and other Directors. We are now considering ways to hold similar events across the 3i network in an environmentally sensitive way.

A programme of sector-based workshops and training courses has been developed for investment staff focusing on corporate responsibility. The objectives of these workshops are to ensure that staff remain fully informed of 3i's corporate responsibility policies, to identify and raise awareness to specific sector or geographical issues and to gain input to the formulation of policy. During the year, workshops were held for investment executives in 3i's software sector and Infrastructure and Asia investment teams and further workshops are planned. In March 2007 an Environmental Awareness Day was arranged for 3i's London-based staff around a screening of the Oscar-winning Al Gore film, "An Inconvenient Truth". The objectives of the day were to raise further the awareness of staff to climate change issues, to report on 3i's own carbon footprint and to discuss ways in which 3i and individual members of staff might take steps to reduce carbon emissions. Following the success of this event, further awareness days are being planned for other offices.

Training for Directors on corporate responsibility issues is achieved through a system of regular Board reporting and by Board presentations on relevant corporate responsibility issues.

Health and safety

We recognise that the promotion of health and safety at work is an essential function of staff and management at all levels. In an endeavour to achieve high standards, appropriate policies and procedures have been put in place. Details of these policies and procedures can be found on 3i's website at www.3igroup.com. 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, Tony Brierley, 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 is not compromised.

Our objective is not to have any reportable accidents or incidents. During the year to 31 March 2007, no reportable accidents occurred under UK Health and Safety regulations or under similar regulations outside the UK.

As a member of Tommy's Pregnancy Accreditation Programme, 3i complies with criteria for pregnancy management, geared towards creating a positive environment for parents-to-be in the workplace.

Procurement

We have developed policies and procedures relating to the purchasing of goods and services for use by the business. These policies and procedures must be followed by all staff. As far as possible, we will work only with suppliers who support our aim to source products responsibly. Suppliers that exploit child or "sweated labour", that disregard social legislation and basic health and safety provision, that "pirate" the intellectual property of others or that wilfully and avoidably damage the environment will be avoided. Details of 3i's procurement policies may be found on 3i's website at www.3igroup.com.

We aim to have a collaborative relationship with our suppliers and, wherever possible, when problems arise with a supplier's performance or behaviour, will work with the supplier concerned to help them meet our requirements.

Environment

As a financial services business employing approximately 750 employees world-wide, 3i's direct environmental impact is relatively low. However, we measure our own energy and resource usage where practicable and set targets to achieve improvement. A benchmark against which we measure our performance is for CO_2 emissions associated with our office accommodation. Our previously published objective has been to reduce CO_2 emissions attributable to office accommodation by 6% over the two years to 2007, from approximately 6,964 tonnes of office related CO_2 emissions generated in the year to 31 March 2005. Following an independent assessment by CarbonNeutral against the World Business Council for Sustainable Development greenhouse gas protocol, CO_2 emissions attributable to office accommodation in the year to 31 March 2007 have been assessed at 5,110 tonnes; a reduction of 26.6% over the two year period to 31 March 2007.

Corporate responsibility issues and the environment

The principal benchmarks against which 3i measures its direct impact on the environment are for CO_2 emissions; and recycling of paper and other materials.

This was achieved largely as a result of a move to more energy efficient offices in London. For the future, 3i's objective is to become carbon neutral over the course of the three years to 31 March 2010.

We assess the environmental standards of suppliers and, through our procurement policy and our purchasing choices, will favour products showing clear environmental advantages unless there are significant reasons for not so doing.

As an active and committed participant in the promotion of sustainable technologies, 3i sees opportunities to form partnerships and make investments in forward-thinking businesses and SFC is one example.

SFC Smart Fuel Cell AG

Location: Germany

Website: www.sfc.com

Fuel cells have long been recognised as alternative power sources. However, their promise has been slow to materialise into real products.

In 2004, SFC was the world's first company to introduce a fully commercialised fuel cell to the market. Today the company is one of the international market leaders in mobile and portable fuel cells in a power range from 10 to 250 W, selling several thousand fuel cells per year into a wide range of applications in leisure and industrial markets. Fuel cells made by SFC are providing electrical energy globally. These are used in recreational vehicles, yachts, holiday homes, traffic monitoring systems, observation stations, light electric vehicles and other applications. A product by SFC was also the first fuel cell ever to be installed as original equipment in a vehicle. It powers the electrical system in the Hymer 5 Class RV.

SFC, which employs 75 people, is already developing portable fuel cells weighing less than 1kg.

Corporate responsibility report continued

The Passage

Following the move of our London office to Victoria in 2006, 3i identified The Passage, a locally based charity focused on helping homeless people back into employment, as one which had high local impact. We quickly formed a relationship with The Passage and are now providing financial and other support.

Bridges Ventures

3i is 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, since when it has made equity investments in 24 businesses employing 700 people, almost 200 of whom came out of unemployment.

Charity and community

3i's charitable policy aims to focus 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;

– charitable activities of staff. 3i matches donations made by UK staff under the Give As You Earn scheme ("GAYE") and the proceeds of staff fundraising efforts. In the year to 31 March 2007, 25% of 3i's charitable donations were matching GAYE donations;

– charities relevant to our corporate activity. For example, 3i founded and supports the Enterprise Education Trust, a charity now in its 30th year, which aims to inspire young people to become involved in, and understand business.

Charitable donations made in the year to 31 March 2007 amounted to £429,409, supporting a variety of charities with donations up to £35,000.

ENTERPRISE EDUCATION TRUST

Bringing you Blue Skies, businessdynamics, NFTE and Achievers International

3i helped to found EET (formerly businessdynamics) 30 years ago and has continued to support its work in inspiring school children to get involved in business ever since. Over 90,000 pupils took part in EET programmes in 2006.

Performance and measurement

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

3i's performance is measured against two indices:

– 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. We were also recognised as one of the best companies on a global basis in respect of our codes of conduct, compliance and anti-crime measures. We aim to continue to be included within this Index.

The Corporate Responsibility Committee

The Corporate Responsibility Committee comprises Tony Brierley, Company Secretary and Chairman of the Committee, Denise Collis, Group Human Resources Director, Patrick Dunne, Group Communications Director, Douwe Cosijn, Head of Investor Relations, Albert Xu, an Investment Director in 3i's Asia investment business, Hans Middelthon, an Investment Director in 3i's Oil and Gas team, Ben Gales, a Director in 3i's US Venture Capital team and Michael Robinson, a Director responsible for 3i's SMI portfolio.

In 2006 we again participated in the annual BitC Corporate Responsibility Index and were included in the 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 were recognised. We aim to continue to be included within this Index.

Each of 3i's business unit and department heads is required to confirm on an annual basis that their operating procedures, including investment procedures, are consistent with 3i's standards and controls and that these procedures are operating in practice.

3i's performance management appraisal process reviews the performance of individual members of staff against agreed objectives and the knowledge, skills and behaviours expected by 3i. All 3i's offices are the subject of health and safety audits to ensure high standards are adopted on a consistent basis world-wide.

During the year, at the invitation of 3i's Chairman, Baroness Hogg, 3i'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 3i and its shareholders.

Audit and verification

The Committee is responsible for monitoring the operation of 3i's corporate responsibility policies and procedures. The identification and management of corporate responsibility risks is integral to the ongoing operational processes of 3i's business units and functions. 3i's internal audit function carries out periodic independent reviews of risks and related controls in this area, including compliance with 3i's corporate responsibility investment procedures.

The Committee may also supplement internal review processes with external reviews where necessary. The Committee is not aware of any material breaches in the application of 3i's internal policies and procedures for managing risks from corporate responsibility issues.

The disclosures in this Corporate responsibility report are the subject of a process requiring each statement made to be verified.

Board of Directors and Management Committee

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1. Baroness Hogg
Chairman since 2002 and a non-executive Director since 1997. Chairman of the Nominations Committee and the Valuations Committee. Chairman of Frontier Economics Limited. A director of BG Group plc and Carnival Corporation and plc. A Governor of the London Business School and a member of the Financial Reporting Council. 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 60.

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 Rutland Trust plc, Home Retail Group plc, Oval Limited and Stanhope Group Holdings Limited and a director of Standard Chartered plc. Formerly Finance Director of Barclays plc and a director of GUS plc and Pilkington plc. Aged 65.

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 52.

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 47.

5. 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 Alcan, Inc 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 and Fortis. Aged 60.

6. Michael Queen
Executive Director since 1997. Managing Partner, Growth Capital and Infrastructure. Responsible for Growth Capital investment since 2005. Joined 3i in 1987. From 1994 to1996 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. A director of Gardens Pension Trustees Limited, a corporate trustee of the 3i Group Pension Plan, and a non-executive director of Northern Rock plc. Member of the Financial Services Authority's Listing Authority Advisory Committee. Past Chairman of the British Venture Capital Association. Aged 45.

7. Danny Rosenkranz
Non-executive Director since 2000. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. Chairman of Foseco plc. Formerly Chief Executive of The BOC Group plc and Chairman of Pecaso Limited. Aged 61.

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 62.

9. Fred Steingraber
Non-executive Director since 2002. A member of the Remuneration Committee and the Nominations Committee. A director of Elkay Manufacturing and John Hancock Financial Trends Fund. A member of the supervisory board of Continental AG. Formerly Chairman and Chief Executive of AT Kearney, Inc, and a director of Maytag Corporation, Lawter International, Inc and Mercury Finance Corporation. Aged 68.

10. Robert Swannell
Non-executive Director since September 2006. A member of the Nominations Committee and the Valuations Committee. Vice Chairman, Citigroup Europe and a member of Citigroup's Global Investment Banking Operating Committee. A non-executive director of The British Land Company PLC, a member of the DTI Industrial Development Advisory Board and a trustee of the UK Career Academy Foundation. Formerly a member of the Regulatory Decisions Committee of the Financial Services Authority. Aged 56.

Other members of Management Committee:

11. Tony Brierley
Company Secretary and General Counsel since 1996. Responsible for the Group's legal, compliance, internal audit and company secretarial functions. Chairman of the Corporate Responsibility Committee. Joined 3i in 1983. Appointed to the Management Committee in 1996. Aged 57.

12. 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. Past President of the Institute of Financial Services. A non-executive director of Close Brothers Group plc. Aged 47.

13. 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. Aged 49.

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 50.

15. Jonathan Russell
Managing Partner, Buyouts. A member of the Management Committee and the Group's Investment Committee since 1999. Joined 3i in 1986. Formerly Chairman of the European Private Equity and Venture Capital Association Buyout Committee. Aged 46.

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 46.

17. Paul Waller
Managing Partner, Funds. A member of the Management Committee since 1999 and a member of the Group's Investment Committee since 1997. Joined 3i in 1978. Past Chairman of the European Private Equity and Venture Capital Association. Aged 52.

18. Guy Zarzavatdjian
Managing Partner, Growth Capital, Europe. 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. Aged 49.

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 2007 ("the year").

Principal activity

3i Group plc is a world leader in private equity and venture capital. The principal activity of the Company and its subsidiaries ("the Group") is investment. It invests in a wide range of growing independent businesses. Its objective is to maximise shareholder value through growth in total return.

Tax and investment company status

The Company is an investment company as defined by section 266 of the Companies Act 1985 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 2006. Since that date the Company has directed its affairs to enable it to continue to be so approved.

Regulation

3i Investments plc, a wholly owned subsidiary of the Company, is 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 2007 appear on pages 74 to 97.

Total recognised income and expense for the year was £1,075 million (2006: £831 million). An interim dividend of 5.8p per share in respect of the year to 31 March 2007 was paid on 3 January 2007. The Directors recommend a final dividend of 10.3p per share be paid in respect of the year to 31 March 2007 to shareholders on the register at the close of business on 22 June 2007.

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 (currently 9,708,553 shares). In addition, holders of certain performance share awards granted under The 3i Group Discretionary Share Plan in respect of an aggregate of 1,222,851 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 and advises 3i Infrastructure Limited, a UK listed investment company established to make investments in infrastructure assets.

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 2007, 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 39.

Share capital

Ordinary shares

Pre-consolidation ordinary share capital movements The issued share capital of the Company as at 1 April 2006 was 550,556,502 ordinary shares of $53\frac{1}{8}$p each. This increased by 603,757 shares to 551,160,259 ordinary shares of $53\frac{1}{8}$p each in the period from 1 April 2006 to 16 July 2006 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 and The 3i Group Sharesave Scheme.

Consolidation of ordinary share capital
Pursuant to resolutions passed at an Extraordinary General Meeting ("EGM") of the Company on 12 July 2006, the issued ordinary share capital of the Company, of 551,160,259 ordinary shares of $53\frac{1}{8}$p each, was on 17 July 2006 consolidated into 466,366,373 ordinary shares of $62\frac{69}{88}$p each.

Post-consolidation ordinary share capital movements At the Annual General Meeting ("AGM") in July 2006, the Directors were authorised to repurchase up to 55,057,000 ordinary shares in the Company (representing approximately 10% of the Company's issued share capital as at 10 May 2006) until the Company's AGM in 2007 or 11 October 2007, if earlier. In the year to 31 March 2007, the Company repurchased and cancelled 7,430,000 ordinary shares of $62\frac{69}{88}$p each (representing 1.56% of the nominal value of the Company's total called-up share capital as at 17 July 2006) pursuant to this authority for an aggregate consideration of £73,540,060.

These shares were repurchased as part of the Company's arrangements to return capital to shareholders.

In the period from 17 July 2006 to 31 March 2007, a total of 2,169,634 ordinary shares of $62\frac{69}{88}$p were issued (to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme).

Accordingly, between 17 July 2006 and 31 March 2007, the share capital of the Company decreased by 5,260,366 ordinary shares to 461,106,007 ordinary shares of $62\frac{69}{88}$p each.

B shares

B share issue Pursuant to resolutions passed at the EGM on 12 July 2006:

(a) the authorised share capital of the Company was increased by the creation of 610,000,000 B shares (cumulative preference shares of 1p each); and

(b) on 17 July 2006, the Company issued 551,160,259 B shares on the basis of 1 new B share for each ordinary share of $53\frac{1}{8}$p held on the register of members on 14 July 2006.

B share repurchases At the EGM on 12 July 2006, the Directors were authorised to repurchase up to 610,000,000 B shares in the Company until the Company's AGM in 2007. In the year to 31 March 2007, the Company repurchased and cancelled 542,530,279 B shares (representing 1.82% of the nominal value of the Company's total called-up share capital as at 17 July 2006) pursuant to this authority for an aggregate consideration of £689,013,454. These shares were repurchased as part of the Company's arrangements to return capital to shareholders. Accordingly, 8,629,980 B shares remained in issue as at 31 March 2007.

Major interests in ordinary shares

As at 2 May 2007, the Company had been notified of the following interests in the Company's ordinary share capital in accordance with Chapter 5 of the FSA's Disclosure Rules and Transparency Rules.

	%	Number of ordinary shares* as at 2 May 2007
AXA S.A. and its group of companies	9.84	45,367,259
The Goldman Sachs Group Inc	7.19	33,148,582
BlackRock Investment Management (UK) Limited	4.93	22,737,966
Prudential plc group of companies	3.95	18,254,412
Legal & General Group plc and/or its subsidiaries	3.61	16,685,941

*Each ordinary share carries one voting right.

Directors' interests

The interests of the Directors (all of which are beneficial) in the shares of the Company up to 31 March 2007 as stated in the register of directors' interests are shown below.

Ordinary share interests stated before the Company's share consolidation on 17 July 2006 relate to ordinary shares of $53\frac{1}{8}$p each while those stated after that date relate to ordinary shares of $62\frac{69}{88}$p each. The B share interests of the Directors are also set out below.

	Ordinary shares		B shares	
	31 March 2007 (or date of cessation if earlier)	1 April 2006 (or date of appointment if later)	**31 March 2007 (or date of cessation if earlier)**	1 April 2006 (or date of appointment if later)
Baroness Hogg	**18,772**	18,686	**–**	–
O H J Stocken	**21,944**	20,026	**–**	–
P E Yea	**595,947**	379,460	**192,114**	–
S P Ball	**174,570**	30,422	**25,843**	–
C J M Morin-Postel	**1,598**	1,872	**1,872**	–
M J Queen*	**382,493**	327,697	**109,910**	–
F D Rosenkranz	**23,893**	28,238	**–**	–
Sir Robert Smith	**8,455**	3,952	**–**	–
F G Steingraber	**–**	–	**–**	–
R W A Swannell (appointed 1 September 2006)	**11,000**	11,000	**–**	–
Dr P Mihatsch (until 31 July 2006)	**–**	–	**–**	–

*Mr M J Queen also had a beneficial interest in conditional rights to acquire ordinary shares arising from a performance linked award under the Management Equity Investment Plan, described on page 72.

The share interests shown above for each of Mr P E Yea, Mr S P Ball and Mr M J Queen include Performance Share awards and Super-performance Share awards which are subject to forfeiture and are detailed in the tables on pages 67 and 68 respectively.

Each of the employees of the Group (including each of the executive Directors) is a potential beneficiary of the Employee Trust and as such was, during the year to 31 March 2007, interested (within the meaning of section 324 of the Companies Act 1985) in the shares held by the trust (other than in certain shares held by the trust as nominee on behalf of specific individuals). The trust held 11,080,758 ordinary shares as at 1 April 2006 and 10,931,404 ordinary shares as at 31 March 2007. These numbers of ordinary shares include the ordinary shares over which Mr M J Queen had conditional rights to acquire under the Management Equity Investment Plan; and the ordinary shares relating to the Super-performance Share awards made to Mr P E Yea, Mr S P Ball and Mr M J Queen.

Details of Directors' share options under the Group's executive share option plans are shown in the Directors' remuneration report on page 66.

In the period from 1 April 2007 to 2 May 2007, the following Directors became beneficially interested in the number of additional shares shown: Mr P E Yea (33 ordinary shares), Mr S P Ball (33 ordinary shares) and Mr M J Queen (33 ordinary shares). In addition, as at 2 May 2007, the number of ordinary shares held by the Employee Trust was 10,931,404.

Save as detailed above, no Director had any disclosable interest in the shares, debentures or loan stock of the Company or in the shares, debentures or loan stock of its subsidiaries during the period and there have been no changes in the above interests between 1 April 2007 and 2 May 2007.

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 July 2003.

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 other stakeholders of 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. It 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 interim 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 to management include implementation of the Board approved strategy, day-to-day operation of the business, the appointment 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, save for Mr F G Steingraber who attended five meetings. Mr R W A Swannell attended the four meetings held since his appointment on 1 September 2006 and Dr P Mihatsch attended the two meetings held before his retirement as a Director on 31 July 2006.

The principal matters considered by the Board during the year included:

– the Group strategic plan, budget and financial resources;

– the Group's capital structure, balance sheet efficiency and the return of capital to shareholders;

– regular reports from the Chief Executive;

– co-investment arrangements for investment staff;

– the recommendations of the Valuations Committee on valuations of investments;

– the Company's share price performance and shareholder perceptions following the release of year end results;

– the raising of the Group's latest European Buyout Fund;

– the raising of a fund for infrastructure investment;

– establishing a Quoted Private Equity team to apply private equity management skills to small and mid-cap listed companies;

– risk management arrangements and investment approval process;

– a review of the Group's advisory and corporate broking relationships;

– independence of non-executive Directors;

– the valuation methodology, investment strategy and the composition of the trustees of The 3i Group Pension Plan; and

– corporate responsibility initiatives and performance.

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 an external consultant. All Board members completed a questionnaire and gave personal views to the Chairman, who also sought views from all members of the Management Committee. The Chairman gave feedback to the Board and to individual Directors. These processes also involved evaluation by members of Board committees of their performance. The Senior Independent Director led a review by the Directors of the performance of the Chairman.

Following the completion of the above process, the Board concluded that:

– it had benefited from having two strategy sessions during the year (in addition to its regular Board meetings), dealing with high level issues and specific issues respectively, and that this practice should be continued;

– as the number of business lines had increased, the amount of time spent on specific strategic issues relating to them would also increase;

– it should continue the practice of holding at least one meeting a year away from the Company's head office in order to enable members to spend time with the executives responsible for building the Company's global capability;

– the preparation for succession planning had been beneficial and the Board invited more opportunities to engage with those executives likely to be promoted to Management Committee;

– it should continue the process of adding external capability to the Board to match changes in the Group's international commercial business and in financial markets; and

– consideration should be given as to how further external input into the Board review process could supplement existing processes.

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, the Company Secretary, Mr B N Carnegie-Brown, Ms D R Collis, Mr C P Rowlands, Mr J B C Russell, Mr A J M Taylor, Mr P Waller and Mr G A R Zarzavatdjian. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Senior Independent Director

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 page 49. 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, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber served throughout the period under review. Mr R W A Swannell served as a Director from 1 September 2006. Dr P Mihatsch served as a Director until 31 July 2006. As stated in the Notice of AGM for 2006, Mr F D Rosenkranz will be retiring from the Board at the conclusion of the 2007 AGM.

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' employment contracts Details of executive Directors' employment contracts are set out in the Directors' remuneration report on page 72.

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 training on anti money-laundering, the changes to the Combined Code on Corporate Governance, developments in relation to the implementation of the Transparency Directive and Companies Act 2006 and changes to the Listing Rules. Non-executive Directors also received presentations on specific aspects of the Company's business. During the year, the Company also held an Environmental Awareness day in which both staff and Directors participated.

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

Re-election 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) Directors to retire at the first AGM after their appointment by the Board and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation at each AGM; and

(b) all Directors to retire at least every three years.

Subject to the Articles of Association, retiring Directors are eligible for reappointment.

In accordance with the Articles of Association, at the AGM to be held on 11 July 2007:

(i) Mr R W A Swannell, having been appointed as a Director since the AGM in 2006, will retire and, being eligible, offer himself for reappointment; and

(ii) Baroness Hogg, Mr P E Yea and Mr F G Steingraber will retire by rotation and, being eligible, offer themselves for reappointment.

The Board's recommendation for the reappointment of Directors is set out in the Notice of 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 Companies (Audit, Investigations and Community Enterprise) Act 2004 and the Company's Articles of Association, the Company has maintained Qualifying Third-Party Indemnity Provisions (as defined under section 309B of the Companies Act 1985) for the benefit of the Company's Directors and the Company Secretary 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, Mr F D Rosenkranz and Sir Robert Smith, all of whom served throughout the period. 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 four meetings of the Committee all of which were attended by all members of the Committee save that Mme C J M Morin-Postel attended three of the four meetings.

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 interim and annual financial statements of the Company and reviewed the scope of the annual external audit plan and the external audit findings;

– reviewed matters relating to the Group's key performance measures, International Financial Reporting Standards and financial reporting requirements arising from the implementation of the Transparency Directive;

– 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;

– met with the external auditors and the heads of Group Compliance and Group Risk Assurance and Audit individually, all in the absence of management;

– considered whether matters existed which could give rise to conflicts of interests between Directors and the Company.

Remuneration Committee

The Remuneration Committee comprises Sir Robert Smith (Chairman), Mme C J M Morin-Postel, Mr F D Rosenkranz, Mr F G Steingraber and Mr O H J Stocken all of whom served throughout the period. Sir Robert Smith succeeded Mr F D Rosenkranz as Chairman of the Committee with effect from 1 August 2006. All the members of the Committee are independent non-executive Directors. During the year, there were six meetings of the Remuneration Committee all of which were attended by all members of the Committee, save that Mr F G Steingraber attended five of the six meetings. 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 R W A Swannell, Mme C J M Morin-Postel, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber, all of whom served throughout the period, save for Mr R W A Swannell who served from 27 September 2006. Dr P Mihatsch served as a member of the Committee until 31 July 2006. During the year, there were two meetings of the Nominations Committee. The members who served throughout the year attended both of these meetings save that Mr F G Steingraber attended one meeting. Mr R W A Swannell attended the one meeting held following his appointment. Dr P Mihatsch was unable to attend the one meeting held before he ceased to be a Committee member on 31 July 2006. 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. The Committee also considered the composition of the Board to ensure that the balance of its membership, as between executive and non-executive Directors, and non-executive Directors' length of service remained appropriate.

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, save that Mr R W A Swannell served from 27 September 2006. Dr P Mihatsch served as a member of the Committee until 31 July 2006. There were three meetings of the Valuations Committee during the year. The members who served throughout the year attended all meetings. Mr R W A Swannell attended the one meeting held following his appointment and Dr P Mihatsch attended the one meeting held before he ceased to be a Committee member.

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 interim 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 Company Secretary. The Company Secretary 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 R W A Swannell following his appointment on 1 September 2006.

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 Notice of AGM for 2006 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. In accordance with the Company's Articles of Association, on each poll every member who was present in person or by proxy had one vote for each share held.

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 the interests of the Group.

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 2007 and up to the date of this report.

With effect from 1 March 2007, the Group Risk Management Committee's activities were supported by not only the established activities of Investment Committee but also by two new committees: Financial Risk Committee and Operational Risk Committee. Details of the new risk management framework can be found in the Risk management section of the Business review on pages 26 to 31.

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;

Directors' report – statutory and corporate governance information
continued

- a Group Compliance function whose role is to integrate regulatory compliance procedures 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;
- 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. Further details of these plans are set out in the Directors' remuneration report. 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 2007 amounted to £429,409. Excluding the Company's matching of Give As You Earn contributions by staff, charitable donations amounted to £322,524. Of this amount approximately 58% were donated to causes which aim to relieve poverty or benefit the community, or both, approximately 12% were donated to charities which advance education, and approximately 9% were donated to medical charities. Further details of charitable donations are set out in the Corporate responsibility report on pages 40 to 47.

In line with Group policy, no donations were made to political parties during the year. Under the Companies Act 1985, as amended, the Company is required to disclose particulars of any donation to any EU political organisation and EU political expenditure incurred during the year. During the period, 3i plc, the main operating company of the Group, made a payment to one organisation, detailed below, which may fall within the definition of donations to EU political organisations. This payment was an annual subscription to the Industry Forum of £3,407.

Policy for paying creditors

The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors during the year. 3i plc had trade creditors outstanding at the year end representing on average 19 days' purchases.

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.

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 being scheduled for 2008. 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 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;
- 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 84.

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

A W W Brierley Secretary
9 May 2007

Registered Office:
16 Palace Street
London SW1E 5JD

Directors' remuneration report

Remuneration Committee

Composition and terms of reference

The Remuneration Committee (the "Committee") comprises only independent non-executive Directors. Its members during the year to 31 March 2007 (the "year") were Sir Robert Smith (Committee Chairman from 1 August 2006), Mr F D Rosenkranz (Committee Chairman until 1 August 2006), Mme C J M Morin-Postel, Mr F G Steingraber and Mr O H J Stocken. None of the Committee members sits with any executive Director on the board of any other quoted company. 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, on behalf of the Board, the specific remuneration packages for each of the executive Directors and the other members of Management Committee. The Committee also reviewed the fees payable to the Chairman of the Board. Details of Committee members' attendance at the Committee's meetings are set out in the Directors' report.

During the year the Committee considered and, where appropriate, made recommendations to the Board on the Company's framework of executive remuneration and its costs to ensure that remuneration policy continued to support the Group's strategy.

The Committee considered performance for the year to 31 March 2006 against key performance measures in assessing executive Director performance for bonus awards in respect of that year. In addition, the Committee reviewed the key performance measures to be used for remuneration purposes in relation to the year to 31 March 2007.

The Committee reviewed the long-term incentives available to senior executives and introduced a new category of performance shares ("Super-performance Shares") with a particularly challenging performance condition.

The Committee determined revised remuneration arrangements for Mr M J Queen, the executive Director responsible for Growth Capital and Infrastructure, to take effect from 1 April 2007.

The Committee determined appropriate adjustments to be made to share awards and performance conditions as a result of the Company's issue of B shares and share capital consolidation in July 2006. The aim of the Committee was to achieve neutrality of treatment, neither advantaging nor disadvantaging participants.

Assistance to the Committee

Persons who materially assisted the Committee with advice on Directors' remuneration in the year were: PricewaterhouseCoopers LLP ("PwC") (until September 2006) and Kepler Associates (from September 2006), external remuneration advisers appointed by the Committee; the Chairman of the Board, Baroness Hogg; 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. During the year, PwC also provided the Group's businesses with taxation advice, HR services, training services, due diligence and advisory services in relation to investments and services of an employee on secondment. Kepler Associates did not provide any other services to the Group during the year.

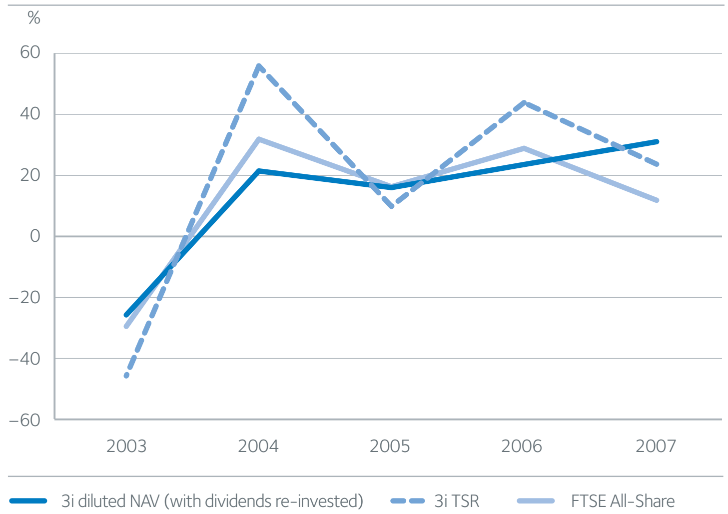
Background

The Company operates in the private equity and venture capital 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. The private equity and venture capital sector continues to be well funded and the ability of trained and experienced executives to gain substantial rewards in the industry remains. 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 and venture capital sector to be given the opportunity to participate in carried interest schemes, which allow executives to share directly in the future profits on investments, subject normally to a variety of conditions relating to the performance of those investments. These are often coupled with co-investment schemes, which require participants in carried interest schemes to put money of their own at risk.

The left hand graph below compares the Company's total shareholder return ("3i TSR") for the five financial years to 31 March 2007 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 Company's total shareholder return and the FTSE All-Share Index total return over the same periods. This has been included as changes in net asset value have been one of the tests used in the Company's long-term incentive schemes.

3i total shareholder return versus FTSE All-Share total return (cumulative) for the years to 31 March

3i diluted NAV, 3i total shareholder return and FTSE All-Share total return (non-cumulative) for the years to 31 March



Directors' remuneration policy

The Committee made no major changes in Directors' remuneration policy during the year. Implementation of existing policy continued to develop. In particular:

(a) one executive Director participated in a co-investment plan, as approved by shareholders at the Company's Annual General Meeting held on 12 July 2006 (the "2006 AGM");

(b) a portion of the performance share awards made to executive Directors comprised Super-performance Share awards. These awards were made subject to a particularly challenging performance condition. Further details are provided on pages 63 and 68; and

(c) the Committee considered appropriate remuneration arrangements for senior staff in the Group's Infrastructure and Quoted Private Equity businesses, including the Director responsible for Growth Capital and Infrastructure.

Non-executive Directors

The Company's policy for the financial year to 31 March 2008 (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. 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, having taken advice from the Committee's remuneration advisers. During the year the basic non-executive Director's fee was £48,000 per annum. The annual fee for membership of the Audit and Compliance, Remuneration and Valuations Committees was £3,000 and the annual fee for Committee Chairmanship was £10,000. No fees were paid to Directors in respect of their membership of Nominations Committee.

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.

(a) Salaries 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 table below provides details of the average percentage increase in base salaries per annum for members of Management Committee (including executive Directors) and other executive staff in the UK who were in employment for the period from 31 March 2006 to 31 March 2007.

	% increase from 31 March 2006 to 31 March 2007
Management Committee (including executive Directors)	6.47%
Other UK executive staff	11.61%

Salaries for Chief Executive and Finance Director The Company's policy for the coming year in relation to the remuneration of the Chief Executive and Finance Director is to pay salaries comparable to those paid by other financial services companies of broadly similar UK market capitalisation. Salary supplements are paid to Mr P E Yea and Mr S P Ball to enable them to make additional pension provision.

Salaries for Directors responsible for investment business The Company's policy for the coming year in relation to the remuneration of Directors with responsibility for investment business continues to be to provide salaries comparable to those paid in the private equity and venture capital industry.

(b) Annual bonuses Employees, including executive Directors, are eligible for discretionary annual bonuses. The Committee determines target bonuses for each executive Director at the beginning of each year. These are intended to be competitive with arrangements in the financial services industry or, in the case of Directors responsible for investment businesses, the private equity and venture capital industry. Target bonuses are achievable if corporate performance targets, personal performance targets and, in the case of Directors responsible for investment businesses, business targets are met. During the year, executive Directors' target bonuses were 90% of base salary, except that the target bonus for the Director responsible for Growth Capital and Infrastructure was 125%. Bonuses above target will only be paid for outstanding performance, and the maximum is twice the target bonus. Bonuses above 1.5 times target will be in shares deferred for two years and the Committee may decide that a higher proportion of bonus should 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 the private equity and venture capital industry as a whole. 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 reviewing performance of the Company against the indicators outlined above, was that corporate performance merited bonus levels above target. As this report shows, total shareholder return of 22.9% was well ahead of the FTSE All-Share return of 11.1%; total return on opening shareholders' funds was 26.8% and the greater part of this came from non market-driven factors. The two main business lines (Buyouts and Growth Capital) performed ahead of their published return targets during the year, and IRR comparisons with the European private equity industry indicated strong outperformance by the Company over the three-year period. Realisations were very high, and investment was significantly higher than in the year to 31 March 2006. While costs had risen, these were mainly associated with the development of the Group's business lines (including the continuing development of the Infrastructure team and the formation of a Quoted Private Equity team).

The Committee's combined assessment of corporate and personal performance in the year led to awards in the upper part of the bonus range for all three executive Directors. Within the maximum of two times target bonus, combined awards ranged from 1.8 to 1.89 times target, which translated into 1 to 1.41 times salary in cash and 0.62 to 0.94 times salary in shares deferred for two years.

For the coming year, following consultation with major shareholders, the target bonus for the Chief Executive will be raised from 90% of base salary to 125%, being the same level as the Director responsible for Growth Capital and Infrastructure, and the target bonus for the Finance Director will be raised from 90% of base salary to 100%. For both the Chief Executive and the Finance Director, any bonus over 100% of base salary will be in shares deferred for two years. The target bonus for the Director responsible for Growth Capital and Infrastructure will remain 125% of base salary with any bonus in excess of 1.5 times target paid in shares deferred for two years. Maximum bonuses for executive Directors will continue to be twice target bonus.

(c) Long-term incentives The Committee determines the levels of 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") and this will not change for the coming year.

During the year and following approval by shareholders at the 2006 AGM, Mr M J Queen, the Director responsible for Growth Capital and Infrastructure, participated in co-investment arrangements and carried interest arrangements. Following consultation with major shareholders, we are now making the following changes: (i) in order to reflect that Mr Queen will be giving up responsibility for Growth Capital by 1 April 2008 and concentrating on developing the Group's infrastructure business, Mr Queen's level of participation in the two-year 2006-08 Growth Capital carried interest arrangement is being cut in half and he has not been eligible to make any further co-investment since 1 April 2007; (ii) in compensation for this, and in recognition for the fact that he received no carried interest or share of fees in relation to infrastructure assets acquired in 2006-07, it is proposed to award him an exceptional bonus in the coming year, part of which is to be deferred over the three years to 2009-10. Payments made during the year to 31 March 2008 will be reported in the 2008 Directors' remuneration report; and (iii) Mr Queen will be eligible to participate in the new part-deferred bonus arrangement being introduced in the coming year for senior members of the Infrastructure team, in place of carried interest, which is intended to provide similar long-term incentive awards and is based on shares of the advisory fees and performance fees paid to the Group by 3i Infrastructure Limited. The aim is to align Mr Queen's remuneration arrangements both with the Group and with the objectives of investors in infrastructure assets, who expect to see much of their return in the form of yield. The first payment under this new part-deferred bonus arrangement is expected to be made in the year to 31 March 2009 and will be reported in the 2009 Directors' remuneration report. Mr Queen has also undertaken to invest £1 million of his own money in 3i Infrastructure Limited shares over three years.

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 share options, Performance Shares and Super-performance Shares. 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, or 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 two times salary. During the year awards with face values of approximately four times salary in share options, one half times salary in Performance Shares and two times salary in Super-performance Shares were made to the Chief Executive and to the Finance Director.

For the coming year the Committee proposes to maintain the limit of six times salary in nominal terms for an award made in share options and maintain the limit of three times salary for awards in Performance Shares and Super-performance Shares, with any combination being subject to an overall limit on the fair value of all share-based awards in the year. Following consultation with major shareholders, this limit will be increased; the limit for the coming year will be increased to 2.5 times annual salary. This change reflects the fact that the Chief Executive and Finance Director do not participate in any carried interest or co-investment arrangements and reflects the introduction of Super-performance Share awards, which must be awarded within this overall limit. 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 23% of face value for share options, 58% of face value for Performance Share awards and 23% of face value for Super-performance Share awards. These fair values are subject to re-calculation in changing market conditions.

Co-investment plans and carried interest plans Shareholder approval was given at the 2006 AGM to enable executive Directors responsible for investment business to participate in co-investment plans established for the Group's investment executives. Directors responsible for investment business are also eligible to participate in carried interest plans, following approval by shareholders in 2004. 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 co-investment plans or carried interest plans. Decisions on an executive Director's participation in co-investment plans and carried interest plans are taken by the Committee, taking into account market practice and the Director's investment responsibilities.

The Company does not currently expect its policy on executive Directors' remuneration for subsequent financial years to change significantly.

Directors' remuneration report continued

Directors' remuneration during the year

	(note 1)			(note 2)	(note 3)	(note 4)		
	Salary and fees £'000	Salary supplements £'000	Total salary, fees and supplements £'000	Bonus £'000	Deferred share bonus £'000	Benefits in kind £'000	**Total remuneration year to 31 March 2007 £'000**	Total remuneration year to 31 March 2006 £'000
Executive Directors								
P E Yea	709	211	920	720	490	22	**2,152**	1,989
S P Ball	455	66	521	450	279	2	**1,252**	1,134
M J Queen	412	–	412	566	377	2	**1,357**	1,168
Non-executive Directors								
Baroness Hogg	260	–	260	–	–	–	**260**	260
O H J Stocken	103	–	103	–	–	–	**103**	90
C J M Morin-Postel	54	–	54	–	–	–	**54**	46
F D Rosenkranz	57	–	57	–	–	–	**57**	56
Sir Robert Smith	61	–	61	–	–	–	**61**	46
F G Steingraber	51	–	51	–	–	–	**51**	43
R W A Swannell (from 1 September 2006)	30	–	30	–	–	–	**30**	–
Former Directors								
R W Perry (until 6 July 2005)	–	–	–	–	–	–	**–**	150
Dr P Mihatsch (until 31 July 2006)	17	–	17	–	–	–	**17**	43
Total	2,209	277	2,486	1,736	1,146	26	**5,394**	5,025

Notes
1 Mr P E Yea and Mr S P Ball received salary supplements to enable them to make additional pension provision.
2 Bonuses relate to the year to 31 March 2007 and are expected to be paid in June 2007.
3 Deferred share bonuses relating to the year to 31 March 2007 will be paid in shares in the Company, deferred for two years.
4 "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).
5 In addition to the salaries and fees disclosed, executive Directors retained fees from outside directorships as follows: Mr P E Yea, £95,000 (Vodafone Group plc); Mr S P Ball, £59,583 (Cable & Wireless plc); and Mr M J Queen, £54,249 (Northern Rock plc).
6 Amounts payable to former Directors in respect of the year were as follows: Dr P Mihatsch, £45,608 (as Chairman of the Company's German Advisory Board); Mr R W Perry, £31,203 (consultancy); Mr M M Gagen, £2,868 (payments under interests in carried interest plans retained following cessation of employment); and Mr W J R Govett, £12,000 (as director of Gardens Pension Trustees Limited, a trustee of the 3i Group Pension Plan).

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 to the extent, normally, that a performance condition set at the time of the grant has been satisfied over a three year performance period.

The performance condition for options granted in the year was as follows:

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 +3 percentage points	0%
At least RPI +3 percentage points	30%
At levels of performance between RPI +3 percentage points and RPI +8 percentage points the grant will vest pro rata	
At least RPI +8 percentage points	100%

The performance condition is the same as for the year to 31 March 2006. In the year to 31 March 2005 the performance condition was also the same save that the percentage of grant vesting at the minimum performance level was 50% instead of 30%. For options granted after 31 March 2004 there is no opportunity for the performance condition to be retested after the three-year performance period.

For grants made between 1 April 2001 and 31 March 2004 the condition required annual percentage compound growth in the net asset value per share (with dividends re-invested) of RPI plus 5 percentage points to achieve minimum vesting of 50% of the award and growth of RPI plus 10 percentage points for full vesting. For these grants, if the minimum threshold for vesting is not achieved in the three-year performance period, the period is extended to four and then five years but from the same base year. Performance conditions for grants made before 1 April 2001 are set out on page 66.

These conditions are based on increases in net asset value per share to enable a significant proportion of relevant executive Directors' potential remuneration to be linked to an increase in the assets per share of the Company. The intention is to approximate to the performance conditions attached to carried interest schemes in the private equity and venture capital 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.

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

	Year of grant	Held at 1 April 2006	Granted during the year	Exercised during the year	Lapsed during the year	**Held at 31 March 2007**	Exercise price £	Market price on date of exercise £	Date from which exerciseable	Expiry date
P E Yea	2004	314,410	–	–	–	**314,410**	5.73		21.07.07	20.07.14
	2005	259,740	–	–	–	**259,740**	6.93		21.06.08	20.06.15
	2006	–	322,966	–	–	**322,966**	8.36		14.06.09	13.06.16
		574,150	322,966	–	–	**897,116**				
S P Ball	2005	245,022	–	–	–	**245,022**	6.53		17.05.08	16.05.15
	2005	48,100	–	–	–	**48,100**	6.93		21.06.08	20.06.15
	2006	–	200,956	–	–	**200,956**	8.36		14.06.09	13.06.16
		293,122	200,956	–	–	**494,078**				
M J Queen	1997	37,073*	–	(37,073)	–	**–**	5.20	10.16	16.06.00	15.06.07
	1998	62,177	–	(62,177)	–	**–**	6.64	10.16	22.06.01	21.06.08
	1999	36,002	–	–	–	**36,002**	7.28		06.07.02	05.07.09
	2000	30,795	–	–	–	**30,795**	13.75		28.06.03	27.06.10
	2001	114,000	–	–	(114,000)	**–**	10.00		09.08.04	08.08.11
	2002	184,318	–	–	–	**184,318**	6.73		27.06.05	26.06.12
	2003	57,218	–	–	–	**57,218**	5.68		25.06.06	24.06.13
	2004	89,552	–	–	–	**89,552**	6.03		23.06.07	22.06.14
	2005	44,733	–	–	–	**44,733**	6.93		21.06.08	20.06.15
		655,868	–	(99,250)	(114,000)	**442,618**				

The performance condition has not yet been met for those options shown in blue.
* Awarded before appointment as a Director.

Notes

1 The fair values of awards made in the year were as follows: Mr P E Yea, £729,000 and Mr S P Ball, £453,600. 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 27% of the market value at the date of grant of the shares under option.

2 On 17 July 2006, the Company issued one B share for each 53 1/9p ordinary share existing on 14 July 2006. This was followed by a share consolidation, of 11 new ordinary shares of 62 69/88p for every 13 ordinary shares of 53 1/9p. This was designed to maintain the price per share, other things being equal, at the same level after the 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 62 69/88p.

3 Options granted before 1 April 2001 were granted under The 3i Group 1994 Executive Share Option Plan (the "1994 Plan") and are normally exercisable between the third and tenth anniversaries of grant 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%.

4 Options granted after 1 April 2001 were granted under the Discretionary Share Plan and the performance conditions are as set out on page 65.

5 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 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 issue of B shares, the consolidation of the Company's share capital and the repurchase by the Company of its own shares.

6 The market price of ordinary shares in the Company at 31 March 2007 was 1136.0p and the range during the period 1 April 2006 to 31 March 2007 was 819.6p to 1194.5p. Aggregate gains made by Directors on share option exercises in the year were £402,467 (2006: £199,158). The amount attributable to the highest paid Director during the year was £nil (2006: £nil). Options were granted at no cost to the option holder with exercise prices not less than prevailing market value.

7 As at 31 March 2007 there were approximately 2.2 million shares available under the 5% dilution limit applicable to the Discretionary Share Plan arising from the guidelines issued by the Association of British Insurers and approximately 22.9 million shares available under the 10% dilution limit arising from those guidelines applicable to "all employee" plans. In addition, approximately 3.3 million unallocated shares were held in an employee trust and were available for awards under the Discretionary Share Plan.

Performance Share and Super-performance Share awards

These are awards of shares which are transferred to the participant subject to forfeiture in certain circumstances. Awards are subject to a performance condition determining whether awards vest. Non-vested shares are forfeited.

(a) Performance Shares Awards of Performance Shares were made during the year. Performance Shares 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. This group consists 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. This condition was 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 will determine whether the condition has been met based on calculations prepared by the Committee's remuneration advisers.

(i) Ordinary shares

	Year of grant	Held at 1 April 2006	(note 2) Adjustment during the year	Granted during the year	Vested during the year	Lapsed during the year	**Held at 31 March 2007**	Market price on date of grant £	Date of vesting
P E Yea	2004	176,840	(27,207)	–	–	–	**149,633**	5.73	21.07.07
	2005	90,484	(13,921)	–	–	–	**76,563**	6.98	14.07.08
	2006	–	–	36,537	–	–	**36,537**	8.60	20.07.09
		267,324	(41,128)	36,537	–	–	**262,733**		
S P Ball	2005	25,134	(3,867)	–	–	–	**21,267**	6.98	14.07.08
	2006	–	–	22,734	–	–	**22,734**	8.60	20.07.09
		25,134	(3,867)	22,734	–	–	**44,001**		
M J Queen	2003	42,238	–	–	(25,765)	(16,473)	**–**	5.56	24.06.06
	2004	88,145	(13,561)	–	–	–	**74,584**	6.03	23.06.07
		130,383	(13,561)	–	(25,765)	(16,473)	**74,584**		

Note

The market price on date of vesting of Mr Queen's award, shown above, was £8.97. The award was granted on 25 June 2003.

(ii) B shares B shares (cumulative preference shares of 1p each) were issued on 17 July 2006 on the basis of one B share for each ordinary share held as at 14 July 2006. These B shares may, in certain circumstances, be repurchased by the Company at a price of 127p per share. The B shares are regarded as forming part of the award from which they derived.

	Held at 1 April 2006	Issued during the year (on 17 July 2006)	Vested during the year	Lapsed during the year	**Held at 31 March 2007**	Date of vesting
P E Yea	–	176,840	–	–	**176,840**	21.07.07
	–	90,484	–	–	**90,484**	14.07.08
	–	267,324	–	–	**267,324**	
S P Ball	–	25,134	–	–	**25,134**	14.07.08
	–	25,134	–	–	**25,134**	
M J Queen	–	88,145	–	–	**88,145**	23.06.07
	–	88,145	–	–	**88,145**	

Notes to tables (i) and (ii) above

1 The fair values of Performance Share awards made in the year were as follows: Mr P E Yea, £182,250 and Mr S P Ball, £113,400. 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 58% of the market value at the date of award of the shares subject to the award.

2 Shares held at 1 April 2006 were ordinary shares of $53^{1}/_{8}$p 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 17 July 2006. Shares held at 31 March 2007 are ordinary shares of $62^{69}/_{88}$p each and B shares (cumulative preference shares of 1p each).

3 During the year, ordinary dividends on Performance Share awards were re-invested net of tax in further Company shares (as in previous years). 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, 3,082 shares; Mr S P Ball, 386 shares; and Mr M J Queen, 936 shares.

(b) Super-performance Shares Awards of Super-performance Shares were also made during the year. Awards are subject to a particularly challenging performance condition determining whether awards vest. The performance condition is measured over a three-year period. If the condition is satisfied, the shares remain subject to a further two-year holding period before they cease to be subject to forfeiture. The performance condition for awards granted in the year was as follows:

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 least 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 per cent and 50 per cent of the grant)	
At least 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 per cent and 100 per cent 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.

	Held at 1 April 2006	Granted during the year	Vested during the year	**Held at 31 March 2007**	Market price on date of grant £	Date of vesting
P E Yea	–	133,261	–	**133,261**	9.69	29.11.11
	–	25,000	–	**25,000**	11.44	29.03.12
	–	158,261	–	**158,261**		
S P Ball	–	84,264	–	**84,264**	9.69	29.11.11
	–	15,000	–	**15,000**	11.44	29.03.12
	–	99,264	–	**99,264**		
M J Queen	–	82,559	–	**82,559**	9.69	29.11.11
	–	82,559	–	**82,559**		

Notes

1 The fair values of Super-performance Share awards made in the year were as follows: Mr P E Yea, £362,780, Mr S P Ball, £227,268 and Mr M J Queen, £184,000. 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 23% of the market value at the date of award of the shares subject to the award.

2 Dividends on Super-performance Share awards paid during the three-year performance period are waived and not re-invested.

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. Accordingly it is not subject to a performance condition. Participants invest up to £125 per month from pre-tax salary in shares ("partnership shares"). For each partnership share the Company grants two free shares ("matching shares") which are normally forfeited if employment ceases (other than on retirement) within three years of grant. Dividends are re-invested in further shares ("dividend shares").

(a) Ordinary shares

	Held at 1 April 2006 Partnership shares	Held at 1 April 2006 Matching shares	Held at 1 April 2006 Dividend shares	**Held at 31 March 2007 Partnership shares**	**Held at 31 March 2007 Matching shares**	**Held at 31 March 2007 Dividend shares**
P E Yea	276	555	35	**381**	**764**	**46**
S P Ball	154	310	4	**278**	**557**	**13**
M J Queen	913	1,827	268	**921**	**1,843**	**274**

Notes

1 Shares at 1 April 2006 were ordinary shares of $53^{1}/_{9}$p each. On 17 July 2006 shares in the plan were consolidated on the same basis as the Company's other issued shares. Shares at 31 March 2007 were ordinary shares of $62^{69}/_{88}$p.

2 In the period from 1 April to 30 April 2007, Mr P E Yea, Mr S P Ball and Mr M J Queen each acquired a further 11 partnership shares and 22 matching shares. During the year, shares were awarded under the plan at prices between 875.5p and 1162.8p per share and with a weighted average price of 973.8p per share.

(b) B shares B shares (cumulative preference shares of 1p each) were issued 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. These B shares continue to be held in the plan as follows:

	Held at 17 July 2006 Partnership shares	Held at 17 July 2006 Matching shares	Held at 17 July 2006 Dividend shares	**Held at 31 March 2007 Partnership shares**	**Held at 31 March 2007 Matching shares**	**Held at 31 March 2007 Dividend shares**
P E Yea	318	639	35	**318**	**639**	**35**
S P Ball	196	394	4	**196**	**394**	**4**
M J Queen	956	1,914	267	**956**	**1,914**	**267**

Co-investment plans and carried interest plans

Participants in co-investment plans invest their own money in the plan relating to the area of the business in which they work. Plans are organised by business line and geography with each plan investing in all investments made by the Group within the relevant business line and geography over a specified time period (usually two years). Participants provide at least one-third of the capital to finance the plans and the Group not more than two-thirds. The plans invest in investments alongside the Group on terms which are in all material respects the same as the terms on which the Group and its funds under management invest. For the period 2006 to 2008 the plans will fund 1% (2% in the US Growth plan) of the total budgeted investment made by the Group and its funds under management, including the plans. Plans share (in proportion to their investment) in the profits and losses made on those investments in the same way as the Group and its funds under management. Proceeds realised on investments made by the Plans are applied first to repaying the amount invested by the Group together with a management charge and a preferential return fixed by Remuneration Committee. For the period 2006 to 2008 this will be 2% over the relevant inter-bank lending rate per annum compound. The remaining proceeds will be distributed to participants as a return on their investment.

Participants in carried interest plans are entitled to the profits made on the proportion of the total carried interest allocated to them subject to the satisfaction of a performance condition which is determined in advance by the Committee, in line with market conditions at the time of the award. 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 his investment team. The carried interest plans are designed to follow best practice in the private equity and venture capital industry.

As mentioned on page 63, Mr Queen's level of participation in the two-year (2006-08) Growth Capital carried interest arrangement is being cut by half. He will also not be eligible to make any further co-investment after 1 April 2007.

In the tables below, interests in co-investment and carried interest plans are expressed in terms of a percentage of the relevant pools of investments in respect of which the participant has an interest, subject to fulfilment of relevant conditions.

The tables also show the accrued value of co-investment and carried interest at the end of the year. The carried interest accrued values are calculated on the basis set out in note 5 on page 83. 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.

(a) Co-investment plans Participants in co-investment plans invest their own money in the plans. The amount of capital invested by Directors to acquire interests in co-investment plans was as follows:

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

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

	Plan interests, being the percentage of the relevant pool of investments in which the participant is interested					
	As at 1 April 2006	Acquired in year	**As at 31 March 2007**	End of period over which interests may vest	Amounts receivable in respect of plan interests vested in year £'000	**Accrued value of plan interest as at 31 March 2007 £'000**
M J Queen						
Global Growth Co-invest 2006-08	Nil	0.023%	**0.023%**	31.07.08	Nil	**97**

Note

Mr Queen will not be eligible to make any further co-investment after 1 April 2007.

(b) Carried interest plans Interests of Directors in carried interest plans during the year were as follows:

	Plan interests, being the percentage of the relevant pool of investments in respect of which the participant is entitled to participate in the realised profits					
	As at 1 April 2006	Awarded in year	**As at 31 March 2007**	End of period over which interests may vest	Amounts receivable in respect of plan interests vested in year £'000	**Accrued value of plan interest as at 31 March 2007 £'000**
M J Queen						
Pan-european Growth Capital 2005-06	2.18%	Nil	**2.18%**	31.03.10	Nil	**310**
Infrastructure 2005-06	0.69%	Nil	**0.69%**	31.03.10	Nil	**Nil**
Primary Infrastructure 2005-06	Nil	0.53%	**0.53%**	31.03.10	Nil	**Nil**
Global Growth 2006-08	Nil	0.34%	**0.34%**	31.03.11	Nil	**Nil**

Notes

1 As explained above, Mr Queen's level of participation in the Global Growth 2006-08 carried interest plan is being reduced by half following the changes to his responsibilities. The figure shown is after this reduction.

2 No carried interest plan has been established for infrastructure investments made in the year to 31 March 2007.

3 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 1.5% per annum management charge (2% for the Global Growth 2006-08 plans) and a hurdle rate of 8% per annum compound on their investment.

Pension arrangements

The executive Directors are members of the 3i Group Pension Plan, a defined benefit contributory scheme which from 1 April 2006 has not been offered to new participants. 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). For members of the plan who joined before 1 September 2002, the pension accrues at the rate of 1/37.5 times final pensionable salary per year of service in respect of service from 1 December 2006. For members who joined the plan between 1 September 2002 and 31 March 2006 inclusive (which includes Mr P E Yea and Mr S P Ball), the pension accrues at the rate of 1/50 times final pensionable salary per year of service. 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 85 and 86.

Pension entitlements of Directors who served during the year are set out below. The final column of the table gives the difference between the transfer value of the Director's pension entitlement at the start of the year and the transfer value at the end, less the contributions paid by the Director. The difference over the year is the result of any extra benefits earned over the year and any change in the value placed on £1 per annum of pension by the actuaries. The value placed on £1 per annum of pension reflects financial conditions at the time (eg the level of the stock market or returns available on government bonds) and the method and assumptions the actuaries use to calculate transfer values from time to time. Changes in the value placed on £1 per annum of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

	Age at 31 March 2007	Complete years of pensionable service at 31 March 2007	(note 1) Increase in accrued pension (excluding inflation) during the year to 31 March 2007 £'000 p.a.	(note 2) Total accrued pension at 31 March 2007 £'000 p.a.	Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2007 £'000 p.a.	(note 1) Increase in accrued pension (including inflation) during the year to 31 March 2007 £'000 p.a.	(note 3) Transfer value of the accrued benefits at 31 March 2007 £'000	(note 4) Transfer value of the accrued benefits at 31 March 2006 £'000	Difference between transfer values at start and end of the accounting year, less Director's contribution £'000
P E Yea	52	2	2.2	6.0	5.4	2.3	98.5	58.7	34.4
S P Ball	46	2	2.1	4.7	5.4	2.2	62.8	31.6	25.8
M J Queen	45	19	3.5	210.7	17.0	10.7	2,668.3	2,441.7	209.6

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 2007 (Actuarial Guidance Note GN11 (version 9.2)).
4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2006 (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.

Deferred pensions in excess of the guaranteed minimum pension ("GMP") are increased in the deferment period according to statutory requirements (subject to an annual minimum of 3% per annum on pension accrued prior to 1 July 2004 for those members who joined the plan before 7 February 1992). GMPs are increased at fixed rate revaluation with increases vesting at Normal Retirement Age. For members who joined the plan before 1 September 2002, pensions in respect of service before 1 July 2004 and in excess of the GMP increase each year in payment to match the increase in the RPI since the pension started (or 30 June 1989, if later), subject to an annual maximum of 7.5% per annum and a minimum of 3% per annum. Pensions for members who joined the plan after 1 September 2002 and pensions in respect of service on or after 1 July 2004 for members who joined the plan before 1 September 2002 increase each year in payment to match the RPI subject to a maximum increase in any year of 7.5% and a minimum of 0%. On death in deferment or after retirement, a two-thirds pension is payable to the member's spouse. Dependants' pensions may be payable in the absence of a spouse's pension. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance of five years' pension.

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.

The Committee considers that compensation payments on early termination of employment should depend on individual circumstances. The duty of Directors to mitigate their loss will always be a relevant factor.

Historic award

An historic award held during the year by a Director under the Management Equity Investment Plan lapsed based on a performance condition relating to the period to 31 March 2007. The award would have entitled the Director to acquire shares at nil cost subject to the performance condition described in the note below.

	Year of grant	Held at 1 April 2006	Exercised during the year	Lapsed during the year	**Held at 31 March 2007**
M J Queen	2000	25,776	–	(25,776)	**–**

Note

Under the performance condition no shares were to vest unless the Company's total shareholder return over a three-year performance period (averaged over the six months before the beginning and end of the period) equalled or exceeded the compound annual increases in the RPI over the period +6% per annum. As the minimum performance condition was not achieved over the three-year period to 31 March 2003, the performance period was extended annually to the maximum length of seven years from the base year. This performance period expired on 31 March 2007. The Group's Human Resources department calculated whether the performance condition had been satisfied and this calculation was audited by Ernst & Young LLP. Based on this calculation, the Committee determined in May 2007 that the performance condition had not been met and that the award had lapsed as at 31 March 2007.

Audit

The tables in this report (including the notes thereto) on pages 64 to 72 have been audited by Ernst & Young LLP.

By Order of the Board

Sir Robert Smith Chairman, Remuneration Committee
9 May 2007

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 to 31 March 2007 which comprise the Consolidated income statement, the Group and parent company Statement of recognised income and expense, the Group and parent company Reconciliation of movements in equity, the Group and parent company Balance sheets, the Group and parent company Cash flow statement 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 are responsible for preparing the Annual report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, as 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, in addition, the Group financial statements have been properly prepared in accordance with 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 is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 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 unaudited part of the Directors' remuneration report, Portfolio valuation methodology, Ten largest investments, Forty other large investments, Assets under management, Investment, Realisations, Private equity and venture capital – a lexicon, Returns and IRRs – an explanation and Carried interest – an explanation. 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 IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

– the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the parent company's affairs as at 31 March 2007;

– the parent company 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

– the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP Registered auditor
London
9 May 2007

Consolidated income statement

for the year to 31 March 2007

	Notes	2007 £m	2006 £m
Realised profits over value on the disposal of investments	2	**830**	576
Unrealised profits on the revaluation of investments	3	**323**	245
		1,153	821
Portfolio income			
Dividends		**81**	75
Income from loans and receivables		**158**	133
Fees receivable	4	**14**	24
Gross portfolio return	1	**1,406**	1,053
Fees receivable from external funds		**37**	24
Carried interest			
Carried interest receivable from managed funds	5	**81**	79
Carried interest payable to executives	5	**(142)**	(64)
Operating expenses	6	**(255)**	(211)
Net portfolio return		**1,127**	881
Treasury interest receivable	10	**91**	57
Interest payable	10	**(100)**	(74)
Movement in the fair value of derivatives	11	**(29)**	(78)
Exchange movements		**(31)**	47
Other income	12	**1**	22
Profit before tax		**1,059**	855
Income taxes	13	**(3)**	(3)
Profit after tax and profit for the year		**1,056**	852
Earnings per share			
Basic (pence)	29	**215.5**	152.0
Diluted (pence)	29	**213.2**	151.2*

*As restated (note 29).

Statement of recognised income and expense

for the year to 31 March 2007

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Profit for the year		**1,056**	852	**1,099**	643
Exchange differences on translation of foreign operations		**5**	(5)	**–**	–
Revaluation of own-use property		**1**	–	**1**	–
Actuarial gains/(losses)	9	**13**	(16)	**–**	–
Total recognised income and expense for the year		**1,075**	831	**1,100**	643
Analysed in reserves as:					
Revenue	27	**134**	117	**88**	87
Capital	27	**936**	719	**1,012**	556
Translation reserve	27	**5**	(5)	**–**	–
		1,075	831	**1,100**	643

Reconciliation of movements in equity

for the year to 31 March 2007

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 (as restated)* £m
Total equity at start of year		**4,006**	3,699	**3,746**	3,635
Total recognised income and expense for the year		**1,075**	831	**1,100**	643
Share-based payments	8	**9**	8	**9**	8
Ordinary dividends	30	**(79)**	(86)	**(79)**	(86)
Special dividends	30	**–**	(245)	**–**	(245)
Issue of B shares	22	**(700)**	–	**(700)**	–
Issues of ordinary shares	27	**18**	13	**18**	13
Share buy-backs	27	**(74)**	(222)	**(74)**	(222)
Own shares	28	**(6)**	8	**–**	–
Total equity at end of year		**4,249**	4,006	**4,020**	3,746

*As restated for the adoption of IFRIC 11.

Balance sheet

as at 31 March 2007

	Notes	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 (as restated)* £m
Assets					
Non-current assets					
Investments					
Quoted equity investments	14	**570**	259	**498**	173
Unquoted equity investments	14	**2,534**	2,514	**1,179**	1,349
Loans and receivables	14	**1,258**	1,366	**548**	735
Investment portfolio		**4,362**	4,139	**2,225**	2,257
Carried interest receivable		**83**	77	**83**	77
Interests in Group entities	15	**–**	–	**1,766**	1,500
Property, plant and equipment	16	**32**	31	**9**	9
Total non-current assets		**4,477**	4,247	**4,083**	3,843
Current assets					
Other current assets	17	**197**	149	**168**	193
Derivative financial instruments	19	**21**	19	**21**	19
Deposits		**1,668**	1,108	**1,668**	1,052
Cash and cash equivalents		**486**	847	**346**	776
Total current assets		**2,372**	2,123	**2,203**	2,040
Total assets		**6,849**	6,370	**6,286**	5,883
Liabilities					
Non-current liabilities					
Carried interest payable		**(153)**	(83)	**(153)**	(83)
Loans and borrowings	20	**(916)**	(1,243)	**(843)**	(968)
Convertible Bonds	21	**(363)**	(365)	**(363)**	(365)
B shares	22	**(11)**	–	**(11)**	–
Subordinated liabilities	23	**(21)**	(24)	**–**	–
Retirement benefit deficit	9	**(1)**	(17)	**–**	–
Deferred income tax	13	**(1)**	(1)	**–**	–
Provisions	25	**(7)**	(5)	**–**	–
Total non-current liabilities		**(1,473)**	(1,738)	**(1,370)**	(1,416)
Current liabilities					
Trade and other payables	24	**(179)**	(160)	**(191)**	(271)
Carried interest payable		**(71)**	(60)	**(42)**	(60)
Loans and borrowings	20	**(675)**	(231)	**(474)**	(230)
Derivative financial instruments	19	**(189)**	(168)	**(188)**	(160)
Current income tax		**(2)**	(2)	**(1)**	–
Provisions	25	**(11)**	(5)	**–**	–
Total current liabilities		**(1,127)**	(626)	**(896)**	(721)
Total liabilities		**(2,600)**	(2,364)	**(2,266)**	(2,137)
Net assets		**4,249**	4,006	**4,020**	3,746
Equity					
Issued capital	26	**289**	292	**289**	292
Share premium	27	**387**	376	**387**	376
Capital redemption reserve	27	**27**	17	**27**	17
Share-based payment reserve	27	**18**	17	**18**	17
Translation reserve	27	**5**	–	**–**	–
Capital reserve	27	**3,280**	3,110	**3,013**	2,767
Revenue reserve	27	**318**	263	**286**	277
Own shares	27	**(75)**	(69)	**–**	–
Total equity	27	**4,249**	4,006	**4,020**	3,746

*As restated for the adoption of IFRIC 11.

Baroness Hogg Chairman
9 May 2007

Cash flow statement

for the year to 31 March 2007

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cash flow from operating activities				
Purchase of investments	**(1,503)**	(1,068)	**(1,693)**	(873)
Proceeds from investments	**2,364**	2,213	**2,458**	1,949
Interest received	**68**	67	**47**	42
Dividends received	**66**	76	**30**	70
Portfolio fees received	**17**	22	**–**	13
Fees received from external funds	**37**	24	**–**	–
Carried interest received	**76**	9	**76**	9
Carried interest paid	**(58)**	(30)	**–**	–
Operating expenses	**(202)**	(216)	**(114)**	(182)
Income tax paid	**(8)**	(8)	**–**	(5)
Net cash flow from operations	**857**	1,089	**804**	1,023
Cash flow from financing activities				
Proceeds from issues of share capital	**18**	13	**18**	13
Buy-back of ordinary shares	**(74)**	(222)	**(74)**	(222)
Purchase of own shares	**(20)**	–	**–**	–
Disposal of own shares	**8**	–	**–**	–
Repurchase of B shares	**(689)**	–	**(689)**	–
Dividend paid	**(79)**	(331)	**(79)**	(331)
Interest received	**80**	50	**73**	46
Interest paid	**(101)**	(60)	**(81)**	(38)
Proceeds from long-term borrowings	**1**	69	**–**	92
Repayment of long-term borrowings	**(2)**	(54)	**–**	–
Net cash flow from short-term borrowings	**211**	188	**213**	156
Net cash flow from deposits	**(560)**	(223)	**(616)**	(261)
Net cash flow from financing activities	**(1,207)**	(570)	**(1,235)**	(545)
Cash flow from investing activities				
Purchases of property, plant and equipment	**(9)**	(15)	**–**	–
Sales of property, plant and equipment	**2**	24	**1**	17
Divestment from joint venture	**–**	2	**–**	2
Net cash flow from investing activities	**(7)**	11	**1**	19
Change in cash and cash equivalents	**(357)**	530	**(430)**	497
Cash and cash equivalents at start of year	**847**	314	**776**	279
Effect of exchange rate fluctuations	**(4)**	3	**–**	–
Cash and cash equivalents at end of year	**486**	847	**346**	776

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 2007 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 9 May 2007.

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
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009

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.

Change in accounting policies

During the year, the Group has adopted IFRIC Interpretation 11 IFRS 2 – Group and Treasury Share Transactions, which has been applied retrospectively in accordance with the requirements of IAS 8, subject to the transitional provisions of IFRS 2. The impact of this change is to increase the Company's interest in Group entities by £17 million, with a corresponding increase in equity, as at 31 March 2006. The change has no impact on the results of the Group.

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 below and in the valuation methodology (page 98).

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

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method.

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. The Group has no interests in joint ventures through which it carries on its business.

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 derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investments. The Group manages its investments with a view to profiting from the receipt of dividends and changes in fair value of equity investments. Therefore, all quoted investments and unquoted equity investments are designated as at fair value through profit or loss and subsequently carried in the balance sheet at fair value. Other investments including loan investments and fixed income shares are classified as loans and receivables and subsequently carried in the balance sheet at amortised cost less impairment. 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 plc's valuation policies. Acquisition costs are attributed to equity investments and recognised immediately in the income statement.

(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 advisor to private equity funds. Fees earned from the provision of investment advisory services are recognised on an accruals basis in accordance with the substance of the relevant investment advisory agreement.

(iii) Performance fees

The Group earns a performance fee from funds to which it provides investment advisory services where specified performance targets are achieved. Performance fees are recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(iv) Support services fees

The Group provides support services to external funds, including accounting, treasury management, corporate secretariat and investor relations. Fees earned from the provision of these support services are recognised on an accruals basis in accordance with the relevant support services agreement.

G Carried interest

(i) Carried interest receivable

The Group earns a share of profits ("carried interest receivable") from funds which it manages on behalf of third parties. These profits are earned once the funds meet certain performance conditions.

Carried interest receivable is only accrued on those managed funds in which the fund's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

(ii) Carried interest payable

The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest payable" is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest scheme. Carried interest payable is only accrued on those schemes in which the scheme's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme.

H 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, the Convertible Bonds are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). On issue of the Convertible Bonds, the fair value of the derivative component is determined using a market rate for an equivalent derivative. Subsequent to initial recognition the conversion option is measured as a derivative financial instrument. 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 remeasured 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 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 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, and that the temporary differences will reverse in the foreseeable future.

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 2007	Buyouts £m	Growth Capital £m	Venture Capital £m	Infrastructure £m	Quoted Private Equity £m	Smaller Minority Investments £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	538	235	12	(15)	–	60	830
Unrealised profits on the revaluation of investments	123	269	(61)	3	6	(17)	323
Portfolio income	127	65	3	27	–	31	253
	788	569	(46)	15	6	74	1,406
Net (investment)/divestment							
Realisation proceeds	1,341	691	187	5	–	214	2,438
Investment	(498)	(482)	(200)	(380)	(14)	(2)	(1,576)
	843	209	(13)	(375)	(14)	212	862
Balance sheet							
Value of investment portfolio at end of year	1,281	1,460	741	469	20	391	4,362

Year to 31 March 2006	Buyouts £m	Growth Capital £m	Venture Capital £m	Infrastructure £m	Quoted Private Equity £m	Smaller Minority Investments £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	208	232	72	–	–	64	576
Unrealised profits on the revaluation of investments	124	60	51	–	–	10	245
Portfolio income	115	49	5	–	–	63	232
	447	341	128	–	–	137	1,053
Net (investment)/divestment							
Realisation proceeds	877	855	207	–	–	268	2,207
Investment	(451)	(497)	(156)	–	–	(6)	(1,110)
	426	358	51	–	–	262	1,097
Balance sheet							
Value of investment portfolio at end of year	1,465	1,192	826	*92	–	564	4,139

*This represents the value at 31 March 2006 of the assets incorporated into the Infrastructure business line previously included in Growth Capital.

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
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

Year to 31 March 2006	UK £m	Continental Europe £m	Asia £m	US £m	Rest of World £m	Total £m
Gross portfolio return	392	586	48	27	–	1,053
Net (investment)/divestment						
Realisation proceeds	1,173	891	67	76	–	2,207
Investment	(405)	(538)	(91)	(70)	(6)	(1,110)
	768	353	(24)	6	(6)	1,097
Balance sheet						
Value of investment portfolio at end of year	1,736	1,923	167	307	6	4,139

2 Realised profits over value on the disposal of investments

	2007 Equity £m	2007 Loans and receivables £m	2007 Total £m	2006 Equity £m	2006 Loans and receivables £m	2006 Total £m
Net proceeds	**1,787**	**651**	**2,438**	1,643	564	2,207
Valuation of disposed investments	**(932)**	**(649)**	**(1,581)**	(981)	(584)	(1,565)
Investments written off	**(25)**	**(2)**	**(27)**	(20)	(46)	(66)
	830	**–**	**830**	642	(66)	576

3 Unrealised profits on the revaluation of investments

	2007 Equity £m	2007 Loans and receivables £m	2007 Total £m	2006 Equity £m	2006 Loans and receivables £m	2006 Total £m
Movement in the fair value of equity	**396**	**–**	**396**	381	–	381
Impairment of loans and receivables	**–**	**(44)**	**(44)**	–	(74)	(74)
Provisions	**(22)**	**(7)**	**(29)**	(40)	(22)	(62)
	374	**(51)**	**323**	341	(96)	245

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 movement in the fair value of equity.

4 Fees receivable

	2007 £m	2006 £m
Fees receivable	**30**	39
Deal-related costs	**(16)**	(15)
	14	24

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

	2007 £m	2006 £m
Carried interest receivable from managed funds	**81**	79
Carried interest payable to executives	**(142)**	(64)
	(61)	15

Carried interest receivable represents the Group's share of profits from managed funds. Each managed 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 in excess of the performance conditions in place in the scheme.

6 Operating expenses

Operating expenses include the following amounts:

	2007 £m	2006 £m
Depreciation of property, plant and equipment	**6**	4
Audit fees	**1**	1
Staff costs (note 7)	**154**	128

Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP:

	2007 £m	2006 £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	**1.0**	0.9
Tax services (compliance and advisory services)	**0.1**	0.1
	2.5	2.4

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 20% of the total investment-related fees paid to the four largest accounting firms.

Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of the auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for audit services to the pension scheme during the year were less than £0.1 million (2006: less than £0.1 million).

7 Staff costs

	2007 £m	2006 £m
Wages and salaries	**110**	91
Social security costs	**16**	14
Share-based payment costs (note 8)	**12**	8
Pension costs (note 9)	**16**	15
	154	128

The average number of employees during the year was 765 (2006: 733).

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:

	2007 £m	2006 £m
Share options*	**7.7**	6.1
Performance shares*	**1.1**	0.6
Share incentive plan	**0.8**	0.7
Deferred bonus shares	**2.2**	0.6
	11.8	8.0

*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 retested 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 after 31 March 2003 the target ACG was RPI plus 3% with maximum vesting at RPI plus 8%, 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%.

(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:

	2007 Number of share options	2007 Weighted average exercise price (pence)	2006 Number of share options	2006 Weighted average exercise price (pence)
Outstanding at start of the year	**25,304,158**	**745**	24,943,522	739
Granted	**1,411,173**	**839**	3,597,145	692
Exercised	**(4,059,359)**	**577**	(2,270,547)	543
Forfeited	**(675,527)**	**878**	(965,962)	868
Lapsed	**(5,085,678)**	**1,000**	–	–
Outstanding at end of year	**16,894,767**	**712**	25,304,158	745
Exercisable at end of year	**7,636,530**	**742**	4,860,952	837

Included within the total number of share options are options over 6 million (2006: 13 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 Year of grant	2007 Weighted average exercise price (pence)	2007 Number	2006 Weighted average exercise price (pence)	2006 Number
1997	–	–	457	249,400
1998	**505**	**277,622**	513	964,373
1999	**630**	**405,472**	623	919,449
2000	**884**	**756,975**	810	1,235,026
2001	**1,312**	**1,170,432**	1,341	1,378,598
2002	**895**	**21,026**	999	5,119,104
2003	**663**	**3,785,511**	663	3,802,071
2004	**571**	**1,414,290**	570	3,694,970
2005	**599**	**4,247,510**	599	4,402,076
2006	**692**	**3,409,732**	692	3,539,091
2007	**839**	**1,406,197**	–	–
	712	**16,894,767**	745	25,304,158

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 1054p (2006: 850p). The options outstanding at the end of the year have a weighted average contractual life of 6.34 years (2006: 6.35 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 331p (2006: 218p). These fair values were calculated using the Black-Scholes option pricing model.

The inputs to this model were as follows:

	2007	2006
Weighted average share price (pence)	**849**	692
Average expected volatility (%)	**29**	27
Expected life (years)	**8.5**	8.5
Average risk-free rate (%)	**4.6**	4.3
Average expected dividend yield (%)	**1.6**	2.0

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 (2006: nil).

Performance share awards

Performance share awards made under the 3i Group Discretionary Share Plan are awards of shares to executives which are transferred to the participant by the 3i Group Employee Trust on terms that the shares may, in certain circumstances, be forfeited. While the shares are subject to forfeiture they may not be sold, transferred or used as security. Awards are subject to a performance condition determining whether and to what extent the award will vest. Non-vested shares are forfeited. Two types of awards have been made: standard awards and Super-performance Shares.

The performance condition for standard awards provides for shares to vest based on the Company's "percentage rank" by total shareholder return for the period of three years from grant (averaged over a 60 day period) compared to a comparator group.

The comparator group consists 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. If the Company's percentage rank is less than 50% none of the shares vest. At a percentage 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)

The performance condition for Super-performance Shares provides for shares to vest based on a performance condition measured over a three-year period. To the extent the shares vest the shares remain subject to a further two-year holding period before they cease to be subject to forfeiture. 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 to achieve minimum vesting of 25% of the award and growth of RPI plus 17 percentage points for full vesting. Between these levels shares vest pro rata.

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 £4 million (2006: £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 2007.

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

	2007	2006
Discount rate	**5.0%**	4.6%
Expected rate of salary increases	**4.5%**	4.2%
Expected rate of pension increases	**3.1%**	3.0%
Price inflation	**3.0%**	2.7%
Expected return on Plan assets	**6.1%**	5.7%

The post-retirement mortality assumptions used to value the benefit obligation at 31 March 2006 and 31 March 2007 are based on the "PA92 medium cohort" table with a current year of use. The life expectancy of a male member reaching age 60 in 2027 is projected to be 27.9 years compared to 26.7 years for someone reaching 60 in 2007.

9 Retirement benefit deficit (continued)

The amount recognised in the balance sheet in respect of the Group's defined benefit plan is as follows:

	2007 £m	2006 £m
Present value of funded obligations	**480**	472
Fair value of Plan assets	**(479)**	(455)
Retirement benefit deficit	**1**	17

Amounts recognised in the income statement in respect of the defined benefit plan are as follows:

	2007 £m	2006 £m
Included in operating costs		
Current service cost	**12**	11
Included in finance costs (note 10)		
Expected return on Plan assets	**(26)**	(23)
Interest on obligation	**22**	21
Included in statement of recognised income and expenses		
Actuarial (gain)/loss	**(14)**	16
	(6)	25

During the year, the Group introduced amendments to the main scheme in response to new regulations in relation to age discrimination. As a result, the accrual rate has been replaced by a uniform accrual rate. This change has not had a significant impact on the value of the funded obligation at 31 March 2007.

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

	2007 £m	2006 £m
Opening defined benefit obligation	**472**	390
Current service cost	**12**	11
Past service cost	**–**	–
Interest cost	**22**	21
Actuarial (gains)/losses	**(15)**	63
Contributions	**–**	1
Benefits paid	**(11)**	(14)
Closing defined benefit obligation	**480**	472

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

	2007 £m	2006 £m
Opening fair value of Plan assets	**455**	367
Expected returns	**26**	23
Actuarial (losses)/gains	**(1)**	48
Contributions	**10**	31
Benefits paid	**(11)**	(14)
Closing fair value of Plan assets	**479**	455

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:

	2007 £m	2006 £m
Equities	**268**	245
Gilts	**213**	190
Other	**(2)**	20
	479	455

The actual return on Plan assets for the year was £25 million (2006: £71 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:

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligation	**480**	472	390	355	303
Fair value of Plan assets	**(479)**	(455)	(367)	(272)	(213)
Deficit	**1**	17	23	83	90
Experience adjustments on Plan liabilities	**2%**	–	(4)%	(3)%	(2)%
Experience adjustments on Plan assets	**–**	(11)%	(4)%	(3)%	(2)%

The cumulative actuarial losses recognised in equity are £4 million (2006: losses £17 million).

The Group expects to make contributions of approximately £10 million to the Plan in the year to 31 March 2008.

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 £3 million (2006: £3 million) and the future liability calculated by German actuaries is £5 million (2006: £4 million). The Group carries both the asset and liability in its consolidated financial statements and has recognised an actuarial loss of £1 million (2006: nil).

10 Net interest payable

	2007 £m	2006 £m
Treasury interest receivable		
Interest on bank deposits	**87**	55
Finance income on pension plan	**4**	2
	91	57
Interest payable		
Interest on loans and borrowings	**(84)**	(58)
Interest on Convertible Bonds	**(6)**	(5)
Amortisation of Convertible Bonds	**(7)**	(8)
Interest on subordinated borrowings	**(3)**	(3)
	(100)	(74)
Net interest payable	**(9)**	(17)

11 Movements in the fair value of derivatives

	2007 £m	2006 £m
Forward foreign exchange contracts	**1**	(3)
Currency swaps	**–**	6
Interest-rate swaps	**32**	(6)
Derivative element of Convertible Bonds	**(62)**	(75)
	(29)	(78)

Further information on interest-rate swaps is provided in note 19. Expectations regarding sterling interest rates, together with the closing out of certain long-dated swaps, have had a beneficial impact on the fair value of interest-rate swaps in the year, resulting in a profit in the income statement.

Further information on 3i's Convertible Bonds is provided in note 21. The fair value of the equity element of 3i's Convertible Bonds has decreased, mainly due to the increase in 3i's share price in the year, and this loss has been recognised in the income statement.

12 Other income

	2007 £m	2006 £m
Write-back of subordinated borrowings	–	20
Gain on disposal of property	–	2
Other	1	–
	1	22

13 Income taxes

	2007 £m	2006 £m
Current tax		
Current year	(3)	(3)
	(3)	(3)
Deferred tax		
Deferred income tax	–	–
Total income taxes in the income statement	(3)	(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% (2006: 30%), and the differences are explained below:

	2007 £m	2006 £m
Profit before tax	1,059	855
Profit before tax multiplied by rate of corporation tax in the UK of 30% (2006: 30%)	(318)	(256)
Effects of:		
Permanent differences	5	6
Short-term timing differences	3	1
Current period unutilised tax losses	(7)	(7)
Prior period utilised tax losses	8	–
Non-taxable UK dividend income	15	20
Repatriated profits of overseas subsidiaries	(4)	(1)
Foreign tax	(3)	(3)
Foreign tax credits available for double tax relief	4	1
Realised profits, changes in fair value and impairment losses not taxable	294	236
Total income taxes in the income statement	(3)	(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 tax

	2007 Group balance sheet £m	2006 Group balance sheet £m
Opening deferred income tax liability		
Tax losses	2	2
Unrealised valuation surpluses on investments	–	(1)
Income in accounts taxable in the future	(3)	(2)
	(1)	(1)
Recognised through income statement		
Tax losses utilised	10	–
Valuation surplus now realised	–	1
Income in accounts taxable in the future	(10)	(1)
	–	–
Closing deferred income tax liability		
Tax losses	12	2
Unrealised valuation surpluses on investments	–	–
Income in accounts taxable in the future	(13)	(3)
	(1)	(1)

At 31 March 2007 the Group had tax losses carried forward of £588 million (2006: £560 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.

14 Investment portfolio

	Group 2007 Equity investments £m	Group 2007 Loans and receivables £m	Group 2007 Total £m
Opening book value	2,773	1,366	4,139
Additions	920	656	1,576
Disposals, repayments and write-offs	(957)	(651)	(1,608)
Revaluation	374	–	374
Provision and impairment of loans and receivables	–	(51)	(51)
Other movements	(6)	(62)	(68)
Closing book value	3,104	1,258	4,362
Quoted	570	–	570
Unquoted	2,534	1,258	3,792
Closing book value	3,104	1,258	4,362

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the Directors have classified the portfolio 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 £73 million (2006: £45 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.

	Group 2006 Equity investments £m	Group 2006 Loans and receivables £m	Group 2006 Total £m
Opening book value	2,917	1,400	4,317
Additions	464	646	1,110
Disposals, repayments and write-offs	(1,001)	(630)	(1,631)
Revaluation	341	–	341
Provision and impairment of loans and receivables	–	(96)	(96)
Other movements	52	46	98
Closing book value	2,773	1,366	4,139
Quoted	259	–	259
Unquoted	2,514	1,366	3,880
Closing book value	2,773	1,366	4,139

15 Interests in Group entities

	2007 Equity investments £m	2007 Loans and receivables £m	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

Details of significant Group entities are given in note 35.

	2006 Equity investments £m	2006 Loans and receivables £m	2006 Total £m
Opening book value*	131	859	990
Additions	130	452	582
Share of profits	–	71	71
Disposals and repayments	(22)	(147)	(169)
Impairment	–	(5)	(5)
Exchange movements	–	31	31
Closing book value*	239	1,261	1,500

*As restated for the adoption of IFRIC 11.

16 Property, plant and equipment

Land and buildings	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening cost or valuation	10	25	9	25
Additions at cost	–	1	–	–
Disposals	(1)	(17)	(1)	(17)
Revaluation	1	1	1	1
Closing cost or valuation	10	10	9	9
Net book amount	10	10	9	9

Depreciation charged in the year on buildings was £0.1 million (2006: £0.1 million).

Plant and equipment	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening cost or valuation	57	51	–	–
Additions at cost	8	18	–	–
Disposals	(21)	(12)	–	–
Closing cost or valuation	44	57	–	–
Opening accumulated depreciation	36	43	–	–
Charge for the year	6	4	–	–
Disposals	(20)	(11)	–	–
Closing accumulated depreciation	22	36	–	–
Net book amount	22	21	–	–

16 Property, plant and equipment (continued)

Assets held under finance leases (all vehicles) have the following net book amount:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Cost	1	1	–	–
Aggregate depreciation	–	–	–	–
Net book amount	1	1	–	–

Finance lease rentals are payable as follows:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £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.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the Capital reserve.

17 Other current assets

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Prepayments	44	92	19	57
Other debtors	153	57	38	89
Amounts due from subsidiaries	–	–	111	47
	197	149	168	193

18 Financial risk management

The funding objective of the Group and Company is that each category of investment 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
Financial assets are predominantly unsecured investments in unquoted companies, in which the maximum credit risk is considered to be the carrying value of the asset. The portfolio is well diversified and for this reason credit risk exposure is managed on an asset-specific basis by investment managers.

Liquidity risk
During the financial year 3i generated a surplus of £857 million (2006: £1,089 million) from its operating activities, and cash resources at the end of the period amounted to £2,154 million (2006: £1,955 million). In addition, the Group had available to it undrawn facilities of £491 million at 31 March 2007 (2006: £488 million).

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 price risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

18 Financial risk management (continued)

Foreign exchange risk

The Group reports in sterling and pays dividends from sterling profits. Structural currency exposures are reduced by matching 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 exposure to the Euro, US dollar, Swedish krona, Indian rupee, Swiss franc and all other currencies combined, is shown in the table below.

	2007 Sterling £m	2007 Euro £m	2007 US dollar £m	2007 Swedish krona £m	2007 Indian rupee £m	2007 Swiss franc £m	2007 Other £m	2007 Total £m
Total assets	4,718	1,423	376	202	79	32	19	6,849
Total liabilities	(434)	(1,544)	(290)	(206)	(79)	(31)	(16)	(2,600)
Net assets	4,284	(121)	86	(4)	–	1	3	4,249

	2006 Sterling £m	2006 Euro £m	2006 US dollar £m	2006 Swedish krona £m	2006 Indian rupee £m	2006 Swiss franc £m	2006 Other £m	2006 Total £m
Total assets	3,820	1,511	475	385	–	124	55	6,370
Total liabilities	(103)	(1,453)	(370)	(316)	–	(92)	(30)	(2,364)
Net assets	3,717	58	105	69	–	32	25	4,006

Cash flow interest rate risk

The Group has a mixture of fixed and floating rate assets. The assets are funded with a mixture of shareholders' funds and borrowings according to the risk characteristics of the assets. The interest rate exposure is minimised by matching the type and maturity of the borrowings to those of the corresponding assets. Some derivative instruments are used to achieve this objective.

The interest rate profile of the financial assets and liabilities of the Group is shown in the table below by the earlier of the contractual repricing or maturity date.

	2007 Within 1 year £m	2007 1–2 years £m	2007 2–3 years £m	2007 3–4 years £m	2007 4–5 years £m	2007 Over 5 years £m	2007 Total £m
Fixed rate							
Loans and receivables	34	51	7	46	12	1,005	1,155
Deposits	1,668	–	–	–	–	–	1,668
Cash and cash equivalents	486	–	–	–	–	–	486
Loans and borrowings	(474)	–	–	–	–	(600)	(1,074)
Convertible Bonds	–	(363)	–	–	–	–	(363)
Subordinated liabilities	–	–	–	–	–	(21)	(21)
Derivatives	(281)	(33)	(18)	(162)	(22)	(383)	(899)
	1,433	(345)	(11)	(116)	(10)	1	952
Floating rate							
Loans and receivables	103	–	–	–	–	–	103
Loans and borrowings	(517)	–	–	–	–	–	(517)
Derivatives	899	–	–	–	–	–	899
	485	–	–	–	–	–	485

	2006 Within 1 year £m	2006 1–2 years £m	2006 2–3 years £m	2006 3–4 years £m	2006 4–5 years £m	2006 Over 5 years £m	2006 Total £m
Fixed rate							
Loans and receivables	28	41	63	42	121	889	1,184
Deposits	1,108	–	–	–	–	–	1,108
Cash and cash equivalents	847	–	–	–	–	–	847
Loans and borrowings	(230)	(200)	–	–	–	(600)	(1,030)
Convertible Bonds	–	–	(365)	–	–	–	(365)
Subordinated liabilities	–	–	–	–	–	(24)	(24)
Derivatives	188	(282)	(32)	(19)	(164)	(406)	(715)
	1,941	(441)	(334)	23	(43)	(141)	1,005
Floating rate							
Loans and receivables	182	–	–	–	–	–	182
Loans and borrowings	(444)	–	–	–	–	–	(444)
Derivatives	715	–	–	–	–	–	715
	453	–	–	–	–	–	453

The derivatives line shows the notional value of interest rate swaps.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Fair value interest rate risk

The fair value of the Group's derivative assets and liabilities is subject to interest rate risk. At 31 March 2007 the fair value of derivative financial instruments was £168 million (2006: £149 million).

19 Derivative financial instruments

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Current assets				
Forward foreign exchange contracts	**1**	4	**1**	4
Currency swaps	**8**	–	**8**	–
Interest rate swaps	**12**	15	**12**	15
	21	19	**21**	19
Current liabilities				
Forward foreign exchange contracts	**(1)**	(12)	**(2)**	(12)
Currency swaps	**(10)**	(3)	**(10)**	(3)
Interest rate swaps	**(22)**	(57)	**(20)**	(49)
Derivative element of Convertible Bonds	**(156)**	(96)	**(156)**	(96)
	(189)	(168)	**(188)**	(160)

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 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:

	2007 £m	2006 £m
Currency swaps	**1,455**	1,392
Forward foreign currency contracts	**174**	35
	1,629	1,427

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 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:

	2007 £m	2006 £m
Fixed rate to variable rate	**10**	340
Fixed rate to fixed rate	**–**	70
Variable rate to fixed rate	**687**	1,020
Variable rate to variable rate	**200**	170
	897	1,600

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 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Loans and borrowings are repayable as follows:				
Within one year	**675**	231	**474**	230
In the second year	**90**	400	**90**	200
In the third year	**81**	94	**81**	94
In the fourth year	**145**	–	**72**	–
In the fifth year	**–**	149	**–**	74
After five years	**600**	600	**600**	600
	1,591	1,474	**1,317**	1,198

20 Loans and borrowings (continued)

Principal borrowings include:

	Rate	Maturity	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2007	**200**	200	**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
Variable rate						
£200 million notes (public issue)	LIBOR+0.100%	2007	**200**	200	**–**	–
Other			**171**	94	**171**	94
			1,171	1,094	**971**	894
Committed multi-currency facilities						
£486 million	LIBOR+0.210%	2010	**–**	–	**–**	–
£150 million	LIBOR+0.175%	2010	**145**	148	**72**	74
			145	148	**72**	74
Other						
Other bonds in issue		2010	**–**	1	**–**	–
Other borrowings			**8**	2	**8**	2
Euro commercial paper			**266**	228	**266**	228
Finance lease obligations			**1**	1	**–**	–
			275	232	**274**	230
Total for loans and borrowings			**1,591**	1,474	**1,317**	1,198

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 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 £1,626 million (2006: £1,543 million).

21 Convertible Bonds

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening balance	**365**	352	**365**	352
Amortised during the year	**7**	8	**7**	8
Exchange movements	**(9)**	5	**(9)**	5
Closing balance	**363**	365	**363**	365

On 1 August 2003, 3i Group plc issued €550 million 1.375% Convertible Bonds due 2008. The 3i share price on 1 August 2003 was 635p (31 March 2007: 1136p). They are convertible at the option of the Bondholder to cash or ordinary shares at any time from 11 September 2003 to 25 July 2008. The number of shares to be issued on conversion will be determined by dividing the principal of the bond less the cash settled amount by the conversion price in effect on the conversion date. The initial conversion price is £8.416757, which has subsequently been adjusted to £8.53 following the share consolidation and special dividend in July 2005 and the return of capital and share consolidation in July 2006. The issuer may make a payment in cash as an alternative to issuing shares upon either conversion or redemption. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008. Interest is payable on the bonds in equal semi-annual instalments in arrears on 12 January and 12 July each year.

On issue, part of the proceeds of the Convertible Bonds was recognised as a derivative instrument. The remaining amount is recognised as a loan and is being held at amortised cost. The effective interest rate is 4.1%. The fair value of the loan element of the Convertible Bonds is £361 million (2006: £366 million).

22 B shares

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Opening balance	–	–	–	–
Issued	700	–	700	–
Repurchased and cancelled	(689)	–	(689)	–
Closing balance	11	–	11	–

On 17 July 2006, the Company issued B shares, cumulative preference shares of one penny each, on the basis of one B share for each $53\frac{1}{8}$p ordinary share existing on 14 July 2006. 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 at general meetings of the Company.

The Company repurchased and cancelled in aggregate 542,530,279 B shares on 24 July 2006 and 4 September 2006 at a price of 127p per share. The Company expects further offers to purchase B shares to be made in July 2007 and July 2008 at 127p per B share and has the right to effect the compulsory sale of any outstanding B shares on or after 14 July 2009.

23 Subordinated liabilities

	Group 2007 £m	Group 2006 £m
Subordinated liabilities are repayable as follows:		
After five years	21	24

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 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Other accruals	179	160	22	42
Amounts due to subsidiaries and fellow subsidiaries	–	–	169	229
	179	160	191	271

25 Provisions

	2007 Property £m	2007 Redundancy £m	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

	2006 Property £m	2006 Redundancy £m	2006 Total £m
Opening balance	6	6	12
Charge for the year	1	4	5
Utilised in the year	(2)	(5)	(7)
Closing balance	5	5	10

The provision for redundancy relates to staff reductions announced prior to 31 March 2007. 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 nine years.

26 Issued capital

Authorised	2007 Number	2007 £m	2006 Number	2006 £m
Ordinary shares of $53\frac{1}{8}$p	–	–	771,764,704	410
Ordinary shares of $62\frac{69}{88}$p	653,031,456	410	–	–
B shares of 1p	610,000,000	6	–	–
Unclassified shares of 10p	1,000,000	–	1,000,000	–

Issued and fully paid	2007 Number	2007 £m	2006 Number	2006 £m
Ordinary shares of $53\frac{1}{8}$p				
Opening balance	550,556,502	292	–	–
Issued on exercise of share options and under the 3i Group Share Incentive Plan	603,757	–	2,222,966	1
Share consolidation	(551,160,259)	(292)	578,520,432	307
Shares cancelled	–	–	(30,186,896)	(16)
Closing balance	–	–	550,556,502	292

During the period 1 April 2006 to 14 July 2006, the Company issued shares for cash on the exercise of share options at various prices from 450p to 728p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme that were issued at 467p per share).

On 17 July 2006, the Company consolidated its issued share capital on the basis of 11 new ordinary shares of $62\frac{69}{88}$p each for every 13 existing ordinary shares of $53\frac{1}{8}$p each held on 14 July 2006. This occurred immediately following the issue of the B shares.

Issued and fully paid	2007 Number	2007 £m	2006 Number	2006 £m
Ordinary shares of $62\frac{69}{88}$p				
Opening balance	–	–	–	–
Issued on exercise of share options and under the 3i Group Share Incentive Plan	2,169,634	2	–	–
Share consolidation	466,366,373	292	–	–
Shares cancelled	(7,430,000)	(5)	–	–
Closing balance	461,106,007	289	–	–

During the period 17 July 2006 to 31 March 2007, the Company issued shares for cash on the exercise of share options at various prices from 469p to 1011p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme, which were issued at 467p or 780p per share).

27 Equity

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 2006

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	307	364	1	9	5	2,613	477	(77)	3,699
Total recognised income and expense					(5)	719	117		831
Share-based payments				8					8
Issue of ordinary shares	1	12							13
Dividends paid							(331)		(331)
Share buy-backs	(16)		16			(222)			(222)
Own shares								8	8
Closing balance	292	376	17	17	–	3,110	263	(69)	4,006

27 Equity (continued)

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	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

Year to 31 March 2006

Company	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Total equity £m
Opening balance*	307	364	1	9	2,433	521	3,635
Total recognised income and expense					556	87	643
Share-based payments				8			8
Issue of ordinary shares	1	12					13
Dividends paid						(331)	(331)
Share buy-backs	(16)		16		(222)		(222)
Closing balance*	292	376	17	17	2,767	277	3,746

*As restated for adoption of IFRIC 11.

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

	2007 £m	2006 £m
Opening cost	69	77
Additions	20	–
Disposals	(14)	(8)
Closing cost	75	69

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 2007 was £124 million (2006: £104 million). The Trustee waived its right to receive dividends on the shares held by the Trust. 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:

	2007	2006
Earnings per share (pence)		
Basic	215.5	152.0
Diluted	213.2	151.2*
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	1,056	852

*Restated for the fair value movement in respect of the Convertible Bonds, not previously taken into account.

	2007 Number	2006 Number
Number of shares		
Weighted average number of shares in issue	489,987,864	560,684,598
Effect of dilutive potential ordinary shares		
Share options	5,396,980	2,744,369
Diluted shares	495,384,844	563,428,967

	2007	2006
Net assets per share (pence)		
Basic	944	743
Diluted	932	739
Net assets (£m)		
Net assets attributable to equity holders of the Company	4,249	4,006

	2007 Number	2006 Number
Ordinary shares in issue	461,106,007	550,556,502
Own shares	(10,931,404)	(11,080,758)
	450,174,603	539,475,744
Effect of dilutive potential ordinary shares		
Share options	5,896,253	2,916,552
Diluted shares	456,070,856	542,392,296

30 Dividends

	2007 pence per share	2007 £m	2006 pence per share	2006 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	9.7	52	9.3	56
Special dividend	–	–	40.7	245
Interim dividend	5.8	27	5.5	30
	15.5	79	55.5	331
Proposed dividend	10.3	47	9.7	52

31 Operating leases

Leases as lessee

Future minimum payments due under non-cancellable operating lease rentals are as follows:

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Less than one year	9	6	–	–
Between one and five years	32	32	–	–
More than five years	42	39	–	–
	83	77	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2007, £10 million (2006: £6 million) was recognised as an expense in the income statement in respect of operating leases. £1 million (2006: £2 million) was recognised as income in the income statement in respect of subleases.

32 Commitments

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Share and loan investments	426	470	224	250

33 Contingent liabilities

	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	9	13	5	13

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, premium if any, and interest on notes issued under the £2,000 million note issuance programme by 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 2007, 3i Holdings plc had drawn down £73 million (2006: £74 million) under the first facility and £nil (2006: £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 2007, 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 investments 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. These funds invest through a number of 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:

Income statement	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Carried interest receivable	**81**	79	**81**	79
Fund management fees	**37**	24	**–**	–

Balance sheet	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Carried interest receivable	**83**	77	**83**	77
Amount due from limited partnerships	**–**	3	**–**	–

Investments
The Group makes minority investments in the equity of unquoted 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:

Income statement	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Realised profit over value on the disposal of investments	**715**	374	**346**	292
Unrealised profits on the revaluation of investments	**316**	78	**143**	57
Portfolio income	**195**	203	**144**	72

Balance sheet	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Quoted equity investments	**411**	66	**405**	46
Unquoted equity investments	**1,392**	1,721	**674**	974
Loans and receivables	**803**	1,317	**292**	694

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.

3i Infrastructure Limited
The Group acts as advisor to 3i Infrastructure Limited, a company listed on the London Stock Exchange, which invests in infrastructure businesses and assets. The following amounts have been included in respect of 3i Infrastructure Limited:

Income statement	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Unrealised profits on the revaluation of investments	**9**	–	**9**	–

34 Related parties (continued)

Balance sheet	Group 2007 £m	Group 2006 £m	Company 2007 £m	Company 2006 £m
Investments: quoted equity investments	**334**	–	**334**	–

Key management personnel
The Group's key management personnel comprises the members of Management Committee and the Board's non-executive Directors.

	Group 2007 £m	Group 2006 £m
Salaries, fees, supplements and benefits in kind	**5**	5
Bonuses and deferred share bonuses	**8**	6
Increase in accrued pension	**–**	–
Carried interest payable within one year	**6**	4
Carried interest payable after one year	**12**	5
Share-based payments	**2**	1

Carried interest paid in the year to key management personnel was £6 million (2006: £2 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 (2006: £26 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 £194 million (2006: £126 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 2007 to £1 million (2006: £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 £10 million (2006: £2 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 SW1E 5JD
3i International Holdings	England and Wales	2,715,973 shares of £10	Holding company	
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	1,262,500 shares of €16	Investment manager	3 rue Paul Cezanne Paris,75008 France

The list above comprises the principal subsidiary undertakings as at 31 March 2007 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 2007, 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 the Limited Partnerships.

Portfolio valuation methodology

A description of the methodology used to value the Group's portfolio is set out below in order to provide more detailed information than is included each year in the accounting policies for the valuation of the portfolio. The methodology complies in all material aspects with the "International private equity and venture capital valuation guidelines" endorsed by both the BVCA and EVCA.

Basis of valuation
Investments are reported at the Directors' estimate of Fair Value at the reporting date. Fair Value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

General
In estimating Fair Value, we seek to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total portfolio. Methodologies are applied consistently from period to period, except where a change would result in a better estimation of Fair Value. Given the uncertainties inherent in estimating Fair Value, a degree of caution is applied in exercising judgments and making the necessary estimates.

Quoted investments
Quoted investments are valued at the closing bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions.

Unquoted investments
Most unquoted investments are valued using one of the following methodologies:

- cost, less any required provision;
- earnings multiple;
- net assets;
- price of recent investment;
- expected sales proceeds.

New investments are valued at cost for the first 12 months and then until another methodology becomes more appropriate. This generally occurs when the first full set of accounts covering a period of at least six months since the date of investment becomes available.

Any investment in a company that has failed or is expected to fail within the next 12 months has the equity shares valued at nil and the fixed income shares and loan instruments valued at the lower of cost and net recoverable amount.

Generally, the process of estimating the Fair Value of an investment involves selecting one of the above methodologies and using that to derive an Enterprise Value for the investee company. The process is then to:

- deduct from the Enterprise Value all financial instruments ranking ahead of the Group;
- apply an appropriate Marketability Discount;
- apportion the remaining value over the other financial instruments including the Group's loans, fixed income shares and equity shares.

Where that apportionment indicates a shortfall against the loans or fixed income shares, then the Group considers whether, in estimating Fair Value, the shortfall should be applied, and if so, to what extent.

The Marketability Discount will generally be between 10%–30% with the level set to reflect the Group's influence over the exit prospects and timing for the investee company.

When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are normally used, adjusted to a maintainable level. Generally, the latest full year historical accounts are used unless there is an indication of a forecast downturn in earnings in the current or forecast year, in which case those earnings may be used. An appropriate multiple is applied to these earnings to derive an Enterprise Value. Normally the multiple will be the average EBIT multiple for the relevant sector of the FTSE Global SmallCap Europe index, adjusted downwards by the Group to exclude loss-making companies.

Where a company reports an operating loss or the industry standard valuation methodology is by reference to the asset base, then the value may be estimated using the net assets methodology.

The "price of recent investment" methodology is used mainly for investments in venture capital companies and includes cost of the investment or valuation by reference to a subsequent financing round. Valuation increases above cost are only recognised if that round involved a new external investor and the company is meeting milestones set by the investors. The relevance of this methodology can be eroded over time due to changes in the technology, business or market which may indicate an impairment has occurred. In this case, carrying values will be reduced to reflect Fair Value.

Other factors that may be taken into account include:

- the expected effect of ratchets, options and liquidation preferences;
- any industry standard valuation methodology. e.g. Discounted cash flows for infrastructure type investments;
- offers received as part of a sale process, which may either support the value derived from another methodology or be used as the valuation less a Marketability Discount of typically 10%.

For the Group's smaller investments, the valuation is determined by a more mechanistic approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are valued at the lower of cost and net recoverable amount. Approximately 15% by value of the Group's unquoted investments are valued using this methodology.

An analysis of the portfolio by valuation method is given in the portfolio analysis on pages 102 and 103.

Ten largest investments

The table below provides information on our ten largest investments, as required by LR 15.4.12, in respect of the Group's holding and excluding any co-investment by 3i managed funds, or share of 3i Infrastructure Limited owned by third parties. Income represents dividends received (inclusive of overseas withholding tax) and gross interest receivable in the year to 31 March 2007. Net assets and earnings figures are taken from the most recent 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 attaching 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 on pages 14 to 23, and more generally at 3i.com.

Investment	Business line	Geography	First invested in	Residual cost £m	Proportion of equity shares held	Directors' valuation £m	Income in the year £m	Net assets £m	Earnings £m
3i Infrastructure Limited[1]	Infrastructure	UK	2007						
Quoted investment company, investing in infrastructure									
Equity shares				325	46.4%	334	–		
				325		**334**	**–**		
Osprey Jersey Holdco Limited (AWG)[2,3]	Infrastructure	UK	2006						
Provider of drinking water and waste water services									
Equity shares				78	7.1%	78	–		
Loans				33		33	4		
				111		**111**	**4**	**130**	**30**
ACR Capital Holdings Pte Limited[4]	Growth	Singapore	2006						
Reinsurance in large risk segments									
Equity shares				105	31.6%	102	–		
				105		**102**	**–**		
Sistemas Técnicos de Encofrados S.A. (STEN)	Growth	Spain	2006						
Sale and rental of formwork and scaffolding equipment									
Equity shares				78	28.8%	78	–		
				78		**78**	**–**	**47**	**16**
Laholm Intressenter AB (DIAB)	Growth	Sweden	2001						
Polymer based sandwich construction laminates									
Equity shares				44	48.1%	77	–		
				44		**77**	**–**	**30**	**12**
FM-Holding AB (Coor Service Management)	Buyouts	Sweden	2004						
Facilities management services									
Equity shares				1	37.5%	45	–		
Loans				29		27	2		
				30		**72**	**2**	**2**	**2**
H-Careholding AB	Buyouts	Sweden	2005						
Elderly, primary and specialist care									
Equity shares				11	41.7%	15			
Loans				57		56	4		
				68		**71**	**4**	**26**	**(2)**
Hayley Conference Centres Limited	Growth	UK	2005						
Provider of conference and training facilities									
Equity shares				1	45.8%	66	2		
				1		**66**	**2**	**72**	**5**
Dockwise Transport N.V.	Buyouts	Netherlands	2007						
Specialists in heavy transport shipping within the marine and oil & gas industry									
Equity shares				1	49.1%	1			
Loans				64		64	2		
				65		**65**	**2**	**107**	**31**
Giochi Preziosi S.r.l	Buyouts	Italy	2005						
Retailer and wholesaler of toys									
Equity shares				63	37.8%	63	–		
				63		**63**	**–**	**134**	**(14)**

Notes

1 3i Infrastructure Limited was incorporated in March 2007 and no audited accounts are available, consequently no net assets or earnings are disclosed.

2 Osprey was incorporated in October 2006, consequently there is no set of audited accounts. Osprey is the holding company for Anglian Water Group (AWG), and therefore their accounts have been used for the net assets and earnings figures. 3i Infrastructure Limited also owns 9% of Osprey, which was transferred to it by 3i at a value of £140 million on 13 March 2007.

3 3i Group's interest is held through a Limited Partnership which entitles 3i Group to a 7.1% share in the interests of Osprey Jersey Holdco Limited, the ultimate holding company of AWG plc.

4 ACR was incorporated in November 2006 consequently there is no set of audited accounts. ACR is the holding company for Asia Capital Reinsurance Group Pte Limited which was also incorporated in November 2006. Consequently no audited net assets or earnings are disclosed.

Forty other large investments

In addition to the ten largest investments shown on page 99, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £20 million. This does not include one investment that has been excluded for commercial reasons.

Investment	Description of Business	Business line	Geography	First invested	Residual Cost[1] £m	Directors' Valuation[1] £m
Clínica Baviera S.A.	Eye laser surgery clinics	Growth	Spain	2005	27	62
Tato Holdings Limited	Manufacture and sale of specialist chemicals	SMI	UK	1989	2	58
Boxer TV-Access AB	Digital TV distributor	Growth	Sweden	2005	56	57
Senoble Holding SAS	Manufacturer of dairy products and chilled desserts	Growth	France	2004	27	50
Jake Holdings Limited (Mayborn)	Manufacturer and distributor of baby and household products	Buyouts	UK	2006	49	49
Care Principles TopCo Limited	Specialist healthcare	Buyouts	UK	1997	20	44
Hobbs Holdings No.1 Limited	Retailer of women's clothing and footwear	Buyouts	UK	2004	38	44
Volnay B.V.	Dutch recruitment classified advertising	Buyouts	Netherlands	2007	43	44
Polyconcept Investments B.V.	Supplier of promotional products	Growth	UK	2005	25	43
Planet Acquisitions Holdings Limited (Chorion)	Owner of intellectual property	Buyouts	UK	2006	42	42
HSS Hire Services Holdings Limited	Tool hire	Buyouts	UK	2004	20	40
Selbatoneil S.L. (La Sirena)	Specialist frozen food retailer	Buyouts	Spain	2006	41	40
Nimbus Communications Limited	Media and entertainment services	Growth	India	2005	39	37
Aviapartner Group S.A.	Airport ground handling	Buyouts	Belgium	2005	35	36
ABX Logistics Group	Industrial transportation	Buyouts	Belgium	2006	35	34
Smart & Cook Holdings Limited	Insurance broking, life, pensions and investment	Growth	UK	2004	11	34
Sofitandus S.L.(GES – Global Energy Services)	Wind power service provider	Buyouts	Spain	2006	33	33
CID Car Interior Design Holding GmbH	Manufacturer of vehicle interior trim	Growth	Germany	2004	20	32
Norma Group Holding GmbH	Provider of plastic and metal connecting technology	Buyouts	Germany	2005	25	29
Telecity Group plc	Services for internet service providers	Buyouts	UK	1998	17	29
Kirk Newco plc (Enterprise)	UK utilities and public sector maintenance outsourcing	Buyouts	UK	2007	29	29
Azelis Group	Distributor of specialty chemicals, polymers and related services	Buyouts	Italy	2007	27	28
Alö Intressenter AB	Manufacture of front end loaders	Growth	Sweden	2002	30	27
NCP Services Topco Limited	Transport management and parking services	Buyouts	UK	2005	3	26
Kudos International	Port operations	Growth	India	2006	27	26
EUSA Pharma Inc	Speciality pharmaceutical business	Venture	EU/US	2007	26	26
Selective Beauty Holdings S.A. (Saint Denis)	Independent distributor of branded fragrances and cosmetic products	Buyouts	France	2006	25	25
Kneip Communication S.A.	Outsourced publication of investment fund data	Growth	Luxembourg	2007	25	25
CDH China Fund II	China growth capital fund	Growth	China	2005	23	24
Wendt Holding GmbH	Manufacturer of precision grinding tools	Buyouts	Germany	2005	2	24
Venture Production plc[2,3]	Oil and gas production	Growth	UK	2002	–	24
Newron Pharmaceuticals S.p.A[2]	Central nervous system drug discovery	Venture	Italy	1999	12	23
Navayuga Engineering Company Limited	Engineering and construction	Growth	India	2006	23	23
Morse plc[2]	Technology integrator	Buyouts	UK	1995	8	23
Vonage Holdings Corp[2]	Voice over internet service provider	Venture	US	2004	25	23
Goromar XXI, SL	Manufacturer of frits, glazes and colours for tiles	Buyouts	Spain	2002	19	23
Fincorp	Mortgage and insurance web broker	Growth	France	2006	22	22
Sulake Corporation Oy	Online communities and multiplayer games	Venture	Finland	2003	5	22
Osby Intressenter AB (Brio Lekolar)	Distributor of educational toys and materials	Buyouts	Sweden	2007	21	21
Demand Media Inc	Internet/media domain name registry services	Venture	US	2006	21	20

Notes
1 The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.
2 Quoted company (including secondary markets).
3 The residual cost is less than £0.5 million.

Assets under management

Total assets under management include portfolio assets directly owned by the Group, assets and uninvested commitments in unquoted co-investment funds managed by the Group, and investment companies advised by the the Group.

3i direct portfolio	2007	2006	2005[1]	2004[1]	2003
Buyouts	**1,281**	1,465	1,521	1,487	1,197
Growth Capital	**1,460**	1,192	1,292	1,233	2,000
Venture Capital	**741**	826	748	682	742
Infrastructure	**469**	92[2]	–	–	–
QPE	**20**	–	–	–	–
SMI	**391**	564	756	960	–
Total	**4,362**	4,139	4,317	4,362	3,939

Unquoted co-investment funds					
Buyouts					
– invested	**689**	865	1,008	985	801
– uninvested commitments	**1,440**	225	284	128	76
Growth Capital					
– invested	**43**	138	186	226	301
– uninvested commitments	**184**	263	341	348	275
Venture Capital					
– invested	**6**	8	11	26	56
– uninvested commitments	**9**	22	24	74	78
SMI	**16**	52	59	88	–
Total	**2,387**	1,573	1,913	1,875	1,587

Advised investment companies					
3i Infrastructure Limited	**385**	–	–	–	–
Quoted investment companies and 3i Group Pension Plan[3]	**–**	–	–	600	452
Total assets under management	**7,134**	5,712	6,230	6,837	5,978

Notes
1 2004 and 2005 were restated last year for IFRS.
2 This represents the value at 31 March 2006 of the assets incorporated into the Infrastructure business line.
3 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)	2007	2006	2005[1]	2004[1]	2003
Continental Europe	**1,894**	1,923	1,693	1,516	1,175
UK	**1,792**	1,736	2,258	2,528	2,494
Asia	**373**	167	89	75	90
US	**283**	307	277	243	180
Rest of World	**20**	6	–	–	–
Total	**4,362**	4,139	4,317	4,362	3,939

3i direct continental European portfolio value (£m)					
Benelux	**326**	124	180	181	101
France	**257**	344	292	234	186
Germany/Austria/Switzerland	**297**	489	503	459	319
Italy	**113**	142	69	53	69
Nordic	**491**	394	344	332	273
Spain	**370**	342	249	224	211
Other European*	**40**	88	56	33	16
Total	**1,894**	1,923	1,693	1,516	1,175

*Other European includes investments in countries where 3i did not have an office at 31 March 2007.

3i direct portfolio value by FTSE industrial classification (£m)[2]					
Resources	**107**	145	162	159	186
Industrials	**879**	1,040	1,077	1,019	944
Consumer goods	**857**	841	969	1,030	873
Services and utilities	**1,310**	1,173	1,214	1,278	1,018
Financials	**747**	379	326	247	274
Information technology	**462**	561	569	629	644
Total	**4,362**	4,139	4,317	4,362	3,939

3i direct portfolio value by valuation method (£m)					
Imminent sale or IPO	**220**	290	373	174	37
Listed	**521**	197	198	259	187
Secondary market	**49**	62	37	31	30
Earnings	**980**	1,021	1,138	1,347	938
Cost	**882**	621	468	509	607
Further advance	**150**	116	203	149	155
Net assets	**53**	95	92	103	139
Other (including other Venture Capital assets valued below cost)	**249**	371	408	328	282
Loan investments and fixed income shares	**1,258**	1,366	1,400	1,462	1,564
Total	**4,362**	4,139	4,317	4,362	3,939

3i direct Buyouts portfolio value by valuation method (£m)					
Imminent sale or IPO	**–**	92	134	59	–
Listed	**23**	25	48	86	46
Secondary market	**–**	1	1	1	6
Earnings	**349**	410	372	472	245
Cost	**95**	105	71	58	93
Net assets	**–**	–	4	2	7
Other	**45**	38	22	20	32
Loan investments and fixed income shares	**769**	794	869	789	768
Total	**1,281**	1,465	1,521	1,487	1,197

3i direct Growth Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**169**	112	120	49	23
Listed	**50**	31	62	78	102
Secondary market	**5**	27	9	7	6
Earnings	**411**	294	360	350	658
Cost	**422**	257	159	171	230
Further advance	**5**	8	14	15	14
Net assets	**14**	25	33	39	131
Other	**42**	89	200	145	135
Loan investments and fixed income shares	**342**	349	335	379	701
Total	**1,460**	1,192	1,292	1,233	2,000

Notes
1 2004 and 2005 were restated last year for IFRS.
2 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data for 2003 to 2005 has not been restated.

3i direct Venture Capital portfolio value by valuation method (£m)	2007	2006	2005[1]	2004[1]	2003
Imminent sale or IPO	**19**	33	33	36	14
Listed	**90**	128	72	71	39
Secondary market	**40**	31	22	20	18
Earnings	**8**	10	25	–	35
Cost	**276**	248	221	257	284
Further advance	**141**	104	186	119	141
Net assets	**2**	6	1	1	1
Other Venture Capital assets valued below cost	**63**	71	71	51	79
Other	**37**	132	55	66	36
Loan investments and fixed income shares	**65**	63	62	61	95
Total	**741**	826	748	682	742
– of which early stage Venture Capital	**580**	629	561	456	589

3i direct Infrastructure portfolio value by valuation method (£m)					
Listed	**334**	–	–	–	–
Cost	**82**	–	–	–	–
Net assets	**–**	4	–	–	–
Loan investments and fixed income shares	**53**	88	–	–	–
Total	**469**	92	–	–	–

3i direct QPE portfolio value by valuation method (£m)					
Listed	**15**	–	–	–	–
Secondary market	**4**	–	–	–	–
Loan investments and fixed income shares	**1**	–	–	–	–
Total	**20**	–	–	–	–

3i direct SMI portfolio value by valuation method (£m)					
Imminent sale or IPO	**32**	53	86	30	–
Listed	**9**	13	16	24	–
Secondary market	**–**	3	5	3	–
Earnings	**212**	307	381	525	–
Cost	**7**	11	17	23	–
Further advance	**4**	4	3	15	–
Net assets	**37**	60	54	61	–
Other	**62**	41	60	46	–
Loan investments and fixed income shares	**28**	72	134	233	–
Total	**391**	564	756	960	–

3i direct Venture Capital portfolio value by sector (£m)					
Healthcare	**243**	290	228	232	253
Communications	**106**	178	189	171	151
Electronics, semiconductors and advanced technologies	**150**	147	141	106	107
Software	**242**	211	190	173	231
Total	**741**	826	748	682	742

Note
1 2004 and 2005 were restated last year for IFRS.

Portfolio analysis including co-investment funds[2]

Portfolio value by business line (£m)	2007	2006	2005[1]	2004[1]	2003
Buyouts	**1,970**	2,330	2,529	2,472	1,998
Growth Capital	**1,503**	1,330	1,478	1,459	2,301
Venture Capital	**747**	834	759	708	798
Infrastructure	**469**	92	–	–	–
QPE	**20**	–	–	–	–
SMI	**407**	616	815	1,048	–
Total	**5,116**	5,202	5,581	5,687	5,097

Portfolio value by geography (£m)	2007	2006	2005[1]	2004[1]	2003
Continental Europe	**2,399**	2,581	2,432	2,305	1,773
UK	**2,032**	2,120	2,757	3,046	3,041
Asia	**382**	188	103	86	101
US	**283**	307	289	250	182
Rest of World	**20**	6	–	–	–
Total	**5,116**	5,202	5,581	5,687	5,097

Notes
1 The portfolio values for 2004 and 2005 were restated last year for IFRS.
2 Excludes commitments to funds that have not been invested.

Investment

Analysis of equity, fixed income and loan investment. This includes investment made by the Group and with our managed unquoted co-investment funds.

3i direct investment by business line (£m)	**2007**	2006	2005	2004	2003
Buyouts	**498**	451	338	282	221
Growth Capital	**482**	497	263	319	325
Venture Capital	**200**	156	143	156	170
Infrastructure	**380**	–	–	–	–
QPE	**14**	–	–	–	–
SMI	**2**	6	11	27	–
Total	**1,576**	1,110	755	784	716

3i direct investment by geography (£m)					
Continental Europe	**560**	538	341	401	304
UK	**650**	405	334	309	318
Asia	**259**	91	29	13	20
US	**92**	70	51	61	74
Rest of World	**15**	6	–	–	–
	1,576	1,110	755	784	716

3i direct continental European investment (£m)					
Benelux	**218**	62	17	52	35
France	**71**	88	73	65	30
Germany/Austria/Switzerland	**44**	76	92	141	104
Italy	**–**	65	20	14	24
Nordic	**87**	126	81	87	62
Spain	**124**	94	41	23	43
Other European*	**16**	27	17	19	6
Total	**560**	538	341	401	304

*Other European includes investments in countries where 3i did not have an office at 31 March 2007.

3i direct investment by FTSE industrial classification (£m)[1]					
Resources	**8**	17	68	9	12
Industrials	**211**	208	163	146	230
Consumer goods	**217**	235	155	260	163
Services and utilities	**511**	481	234	228	134
Financials	**534**	84	59	28	48
Information technology	**95**	85	76	113	129
Total	**1,576**	1,110	755	784	716

3i direct first and subsequent investment (£m)					
First investment in new investee companies	**1,184**	755	488	534	433
Drawdown on existing arrangements for first investments	**38**	12	10	17	48
Investment by 3i in external funds	**168**	111	26	3	6
Newly arranged further investment in existing portfolio companies	**102**	162	167	176	163
Other – including capitalised interest	**84**	70	64	54	66
Total	**1,576**	1,110	755	784	716

Investment by business line (including co-investment funds) (£m)					
Buyouts	**781**	655	532	438	376
Growth Capital	**489**	503	274	349	379
Venture Capital	**200**	156	144	161	176
Infrastructure	**380**	–	–	–	–
QPE	**14**	–	–	–	–
SMI	**2**	8	12	31	–
Total	**1,866**	1,322	962	979	931

Investment by geography (including co-investment funds) (£m)					
Continental Europe	**765**	652	433	526	436
UK	**731**	498	440	375	399
Asia	**263**	96	38	17	22
US	**92**	70	51	61	74
Rest of World	**15**	6	–	–	–
Total	**1,866**	1,322	962	979	931

Note
1 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data for 2003 to 2005 has not been restated.

Realisations

Analysis of the Group's realisations proceeds (excluding third-party co-investment funds).

Realisations proceeds by business line (£m)	**2007**	2006	2005	2004	2003
Buyouts	**1,341**	877	505	205	345
Growth Capital	**691**	855	443	391	538
Venture Capital	**187**	207	156	91	93
Infrastructure	**5**	–	–	–	–
QPE	**–**	–	–	–	–
SMI	**214**	268	198	236	–
Total	**2,438**	2,207	1,302	923	976

Realisations proceeds by geography (£m)					
Continental Europe	**1,159**	891	365	245	238
UK	**1,169**	1,173	897	608	727
Asia	**54**	67	6	60	9
US	**56**	76	34	10	2
Total	**2,438**	2,207	1,302	923	976

Realisations proceeds (£m)					
IPO	**124**	229	41	7	37
Sale of quoted investments	**116**	143	134	118	110
Trade and other sales	**1,546**	1,271	744	532	493
Loan and fixed income share repayments	**652**	564	383	266	336
Total	**2,438**	2,207	1,302	923	976

Realisations proceeds by FTSE industrial classification (£m)[1]					
Resources	**156**	132	105	14	60
Industrials	**676**	418	142	216	294
Consumer goods	**302**	529	394	167	192
Services and utilities	**815**	739	457	352	330
Financials	**255**	225	29	80	42
Information technology	**234**	164	175	94	58
Total	**2,438**	2,207	1,302	923	976

Note

1 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data for 2003 to 2005 has not been restated.

Private equity and venture capital – a lexicon

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:

Venture capital This is investment in "early-stage" or "late-stage" technology companies, Here, the investor ("the VC") typically takes a minority equity stake (ie less than 50% of the equity shares) 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 pre revenue. "Late-stage" investments tend to fund the scaling up of a business once the model is proven for companies which are either pre or just making a profit. Both early and late-stage investing usually involves a number of "funding rounds".

Examples of venture capital investments can be found on pages 22 and 23.

Growth capital (or development capital) This involves the provision of capital to accelerate the growth of established businesses and generally involves the private equity investor ("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.

Examples of growth capital investments can be found on pages 18 and 19.

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 PE investor, with the PE investor usually holding a majority stake.

The finance for the buyout would generally comprise around 60% 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. In order to reflect the mismatch between the equity finance provided respectively by the PE investor and the management team and the equity stake taken by each in the underlying business, a large part of the PE investor's finance is generally provided in the form of redeemable preference shares or shareholder loans.

Examples of buyouts investments can be found on pages 14 and 15.

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 but are constrained by their current shareholding composition. The concept is that through taking a private equity value adding approach to these companies and working with management their prospects can be significantly improved.

Investment objective

Like any other investment, 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 (ie a sale to a corporate purchaser), a sale to a financial purchaser or a flotation on the public markets of the underlying business. 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".

The investment lifecycle

The investment lifecycle for an investment can be broken down into five distinct phases, with each involving 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 their 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. As important is the ability to assess and strengthen the management team as the life cycle proceeds – 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 10 years. Investments generally consist of an initial commitment of capital which is then drawn down as the investment manager finds investment opportunities. Capital is returned to the investor 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.

Infrastructure

3i also invests in infrastructure assets. These relate to investment in public service activities covering the range from "primary" investment, the building of a public service operation (eg a road, hospital or school), to "secondary" investment, which involves the operational scaling once the facilities are up and running and finally "tertiary" investments in mature infrastructure operations.

Our aim is to achieve market-beating returns by generating cash-to-cash vintage year IRRs of 20% for Buyouts and Growth Capital and 25% for Venture Capital.

How does 3i's total return equate to the IRR measures?

Table 3 on page 34 shows an analysis of 3i's total return.

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 (eg £1,075 million for the year to 31 March 2007) or as a percentage of opening shareholders' funds (eg 26.8% for the year to 31 March 2007).

Gross portfolio return is made up of the income and value movement (both realised and unrealised) generated from our portfolio.

Costs include expenses and 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 investing in an asset from the date of initial investment up until a particular point in time. It is calculated as the annualised effective compound rate of return, using monthly cash flows, generated from the asset. 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 as the terminal cash flow. An IRR can apply to a single asset or a pool of assets (eg all new investments made in financial year 2004 can be pooled to calculate an IRR for vintage year 2004).

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 revenue. 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 2007 covers new investments made from 1 April 2006 to 31 March 2007.

Why does 3i track the performance of vintage years?

Looking at the performance of a vintage enables us to assess the returns we are making 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 us to assess the return generated from assets over the length of time we hold them, rather than just looking at the performance between the beginning and end of a financial year, which is shown in our yearly 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 do 3i use to assess the performance of a vintage?

3i has published target cash-to-cash IRRs for each business line. These targets are 20% for Buyouts and Growth Capital and 25% for Venture Capital.

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

The published target IRRs are for each business line in aggregate. It does not mean that the IRR for each asset in those business lines will achieve the target IRRs individually. 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. The range of volatility we expect in any one given vintage year is +/-10% for Buyouts, +/-7% for Growth Capital and +/-15% for Venture Capital.

Across the cycle, we expect the volatility to average out at +/-5% for Buyouts, +/-3% for Growth Capital and +/-7% for Venture Capital.

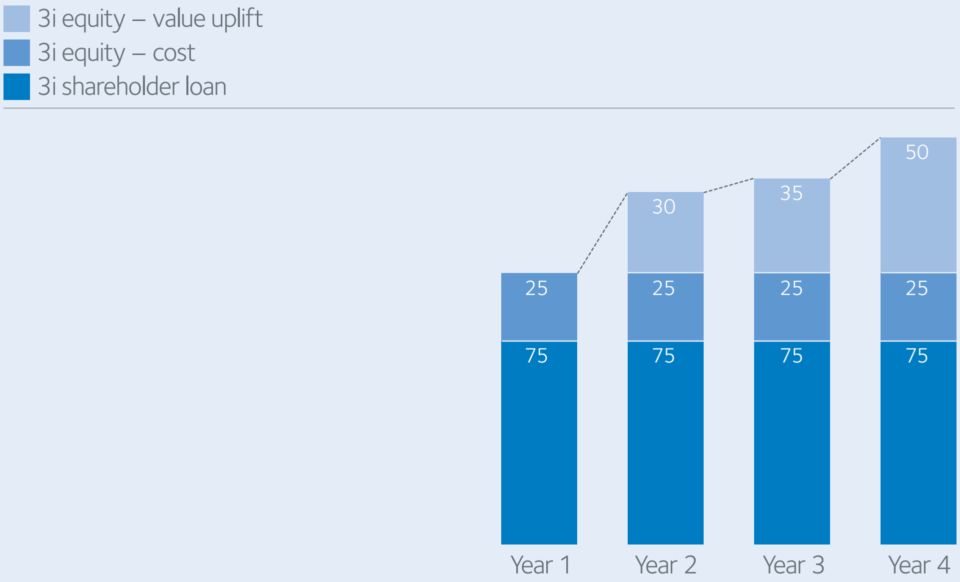
A 3i vintage year is made up of many assets. All will have their own individual cash flows and different timings of when value uplift occurs and holding periods. We believe that after three years the maturity of a vintage will have developed enough for the Fund IRR to give a good indication of the final outcome. By seven years most vintage years will be largely realised.

Tracking our progress

To monitor a vintage year we use a combination of Fund IRRs and money multiples. The Fund IRR to give a measure of performance and the money multiple to show 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 each business line within the Business review (Buyouts on page 12, Growth Capital on page 16 and Venture Capital on page 20) for the last five vintages (2003 to 2007).

Chart 1: **IRR evolution**



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 108. 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 calls these external funds "co-investment funds" since they invest alongside 3i's balance sheet. A variety of funds are managed by 3i but in recent years 3i has only raised buyout funds to invest alongside its Buyouts business line. The most recent fund is 3i Eurofund V, investing primarily in mid-market European buyouts.

3i's carried interest payable is due to investment executives employed by 3i. This is payable mainly in relation to 3i's Buyout, Growth Capital and Venture Capital investments. 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 86% of 3i's portfolio assets, measured by value at 31 March 2007, 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 co-investment fund and held on 3i's own balance sheet.

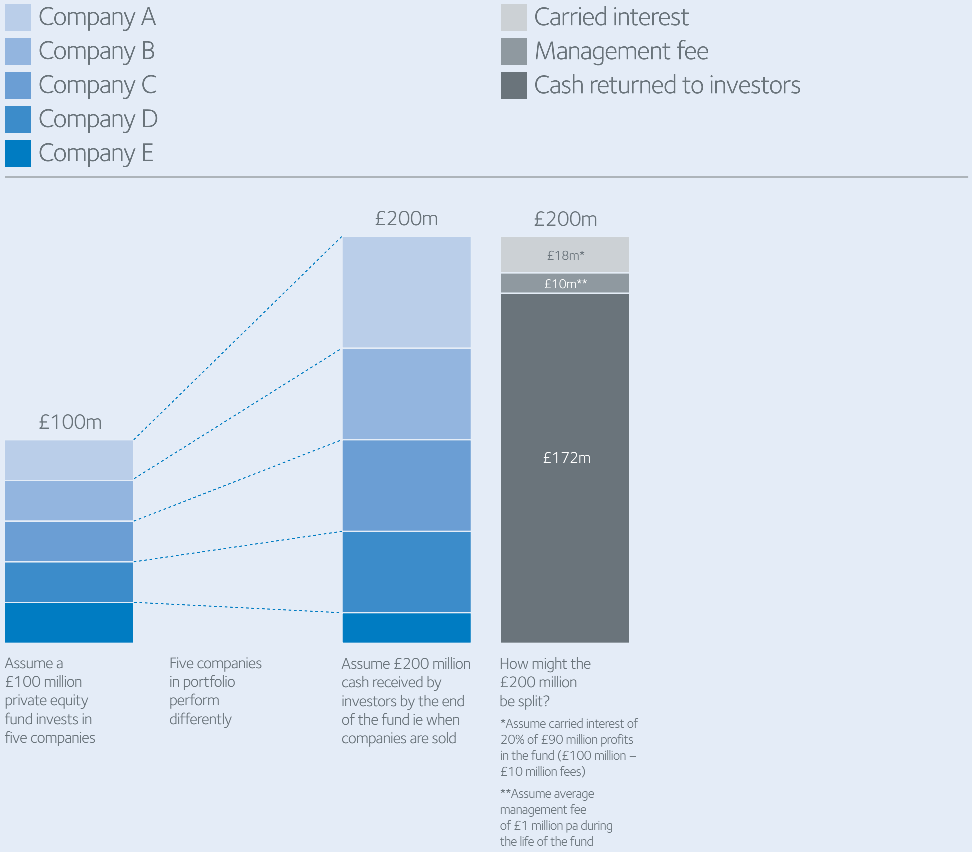
How does 3i account for carried interest?

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.

However it should be noted that some private equity firms account for carried interest as it is paid and received (the so-called cash basis) and others account for carried interest at the time of making a new investment by employing option valuation techniques.

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



Information for shareholders

Financial calendar

Ex-dividend date	20 June 2007
Record date	22 June 2007
Annual General Meeting	11 July 2007
Final dividend to be paid	20 July 2007
Interim results	November 2007
Interim dividend expected to be paid	January 2008

Information on ordinary shares

Shareholder profile Location of investors at 31 March 2007

UK (including retail shareholders)	73.4%
Continental Europe	8.9%
US	15.8%
Other international	1.9%

Share price

Share price at 31 March 2007	1136.0p
High during the year (22 February 2007)	1194.5p
Low during the year (22 May 2006)	819.6p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2007	%
1 – 1,000	23,842	1,913	11,455,337	2.48
1,001 – 10,000	3,952	1,176	11,399,869	2.47
10,001 – 100,000	120	439	19,765,655	4.29
100,001 – 1,000,000	16	268	96,043,806	20.83
1,000,001 – 10,000,000	0	79	206,342,299	44.75
10,000,001 – highest	0	8	116,099,041	25.18
Total	27,930	3,883	461,106,007	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 2007.

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc, including requests for further copies of the Report and accounts, please contact:

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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 interim reports, results presentations and financial news.

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An investment company as defined by section 266 of the Companies Act 1985.

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Frequently used Registrars' forms may be found on our website
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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 interim 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.

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