15 May 2008

3i Group plc announces full year results to 31 March 2008

Total return of 18.6% and 37% growth in assets under management

Preliminary results for the year to 31 March 2008

Highlights

- Growth in assets under management of 37% to £9.8 billion (2007: £7.1 billion)
- Total return of £792 million, an 18.6% return on opening shareholders' funds (2007: £1,075 million, 26.8%).
- Highly selective approach to investing: 47 new investments (2007: 62)
- Total investment of £2,160 million (2007: £1,576 million); driven by an increase in average size of investment to £37 million (2007: £26 million).
- As expected, a lower level of realisation proceeds compared to last year's exceptional level of £1,742 million (2007: £2,438 million).

	2008	2007
Portfolio and assets under management		
Own balance sheet	**£6,016m**	£4,362m
Third-party funds	**£3,776m**	£2,772m
	£9,792m	£7,134m
Investment activity*		
Investment	**£2,160m**	£1,576m
Realisation proceeds	**£1,742m**	£2,438m
*excluding third party		
Returns		
Realised profits on disposal of investments	**£523m**	£830m
Unrealised profit on revaluation	**£291m**	£323m
Portfolio income	**£227m**	£253m
Gross portfolio return on opening portfolio value	**23.9%**	34.0%
Total return	**£792m**	£1,075m
Total return on opening shareholders' funds	**18.6%**	26.8%
Gearing	**40%**	0%
Final dividend	**10.9p**	10.3p
Net asset value per share (diluted)	**£10.77**	£9.32

Baroness Hogg, Chairman of 3i Group plc, said:
"In more challenging markets, 3i has continued to deliver a substantial increase in net asset value."

3i's Chief Executive, Philip Yea, said:
"The last twelve months have seen a significant adverse change in the outlook for the world economy. The relatively benign environment of the last few years has allowed 3i to reshape itself by broadening our asset classes, increasing third-party funds under management and expanding geographically. As a consequence, we enter the new financial year realistic in outlook and confident in our strategy."

Convertible bond
We are also today announcing the launch of an offering for circa £425 million unsecured convertible bonds due 2011. 3i is issuing the bonds to refinance its existing €550m 1.375% convertible bonds which mature on 1 August 2008. 3i intends to use the net proceeds from the issue of the bonds primarily either to purchase the existing bonds in the market or to redeem the existing bonds at maturity to the extent they have not, by then, been converted or purchased and cancelled, and for general corporate purposes. The conversion price is expected to be set at a premium of between 25% and 30% above the volume weighted average price of 3i's ordinary shares during the placement. 3i will also enter into certain agreements with Dresdner Kleinwort and Lehman Brothers, who are acting as joint bookrunners of the offering, in order to offset 3i's exposure in relation to the bonds and to raise the effective conversion premium to approximately 60%.

- ends -

For further information, please contact:

Philip Yea, Chief Executive 3i Group plc	Tel: 020 7975 3386
Patrick Dunne, Group Communications Director 3i Group plc	Tel: 020 7975 3283
Lydia Pretzlik The Maitland Consultancy	Tel: 020 7379 5151

For further information regarding the announcement of 3i's annual results to 31 March 2008, including a video interview with Philip Yea (available 7.15am) and a live webcast of the results presentation (at 10.00am, available on demand from 2.00pm), please see www.3igroup.com.

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

Our 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.

Total return
for the year to 31 March

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

Gross portfolio return by business line
for the year to 31 March

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

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

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

Chairman's statement

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

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

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

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

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

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

At times like these, 3i's standards of transparency and accountability, reinforced by 14 years' experience as a quoted company, serve the Company well. In our annual reports, which have been widely praised by observers of both private equity and quoted companies, we strive to provide our shareholders with a detailed picture of our approach to investment, valuation and risk management. This also stood us in good stead at a time of unprecedented interest in the industry and some challenge to its reputation. This led the British Private Equity and Venture Capital Association to invite Sir David Walker to set up a working group on transparency and accountability, of which I was delighted to be a member. This annual report is fully in compliance with Sir David's guidelines. Moreover, we have taken again the opportunity to increase disclosure beyond that, by providing more detailed information on our valuation methodology.

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

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

Baroness Hogg
Chairman
14 May 2008

Chief Executive's statement

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

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

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

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

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

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

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

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

£162 million of return, reversing last year's negative £62 million. Provisions rose to £188 million from last year's exceptionally low figure of £71 million.

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

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

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

The results of this reshaping will be seen over the next few years as the capabilities that we have recently built deliver further profitable assets for the Group and additional income streams from third-party funds. This also means that in the coming year our key performance indicator of net costs as a percentage of opening portfolio value will continue its progress towards our long-term objective of 3.0%.

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

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

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

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

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

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

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

Philip Yea
Chief Executive
14 May 2008

Business review

Group business

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

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

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

Detailed descriptions, performance data and commentaries for each of our Buyouts, Growth Capital, Infrastructure, Quoted Private Equity and Venture Capital business lines can be found in this document.

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

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

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

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

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

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

3i's approach
3i is a highly selective investor and made 47 new investments during the year to 31 March 2008 (2007: 62), across a range of sectors, regions and types of investment. As can be seen from the tables 8 to 11, the portfolio is well diversified in terms of investment type, geography and sector. Consistent with our investment strategy, the number of new investments in the period was lower, principally because of a decrease in the number of early-stage technology investments.

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

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

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

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

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

3i's values and our non-financial key performance measures are set out in our Corporate responsibility report. 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.

Buyouts

Long-term performance

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

Returns from Buyouts (£m)

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

Business activity – investment and divestment (£m)

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

Buyouts

Business model

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

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

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

Strategy

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

Working with management, we create a bespoke value creation plan for each investment, focused on growing earnings, improving operational efficiency and strategic value, leveraging 3i's network, knowledge and expertise to maximum effect.

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

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

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

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

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

The impact on the private equity industry as a whole has been most pronounced in the large leveraged buyout ("LBO") market in the US and in Europe, where new LBO investment activity has come to a virtual standstill because of the lack of availability of suitably-sized debt packages. According to unquote", the number of European buyouts with an enterprise value of over €1 billion fell by 42% from 24 in the first half of 2007 to 14 in the second half of the calendar year.
In the European mid-market, which is where 3i operates, debt has remained available for new investments, albeit on terms and conditions more reflective of the market in 2004 and 2005 than in 2007. Data from unquote", shows that the number of European transactions with an enterprise value between €25 million and €1 billion were down, but only by 4%, from 294 in the first half of 2007 to 282 in the second half of the calendar year.

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

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

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

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

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

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

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

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

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

Table 12 contains a schedule of 3i's managed funds and provides details on when each fund was raised, its size and the extent of 3i's commitment as well as the amount invested by the fund at 31 March 2008.

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

Jonathan Russell
Managing Partner

Growth Capital

Long-term performance

New investments made in the financial years to 31 March

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

Returns from Growth Capital (£m)

year to 31 March

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

Business activity – investment and divestment (£m)

year to 31 March

	2008	2007
Realisation proceeds	**503**	691
Investment	**(990)**	(482)
Net (investment)/divestment	**(487)**	209

Business model

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Portfolio health

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

Long-term performance

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

Michael Queen
Managing Partner Growth Capital until 31 March 2008

Guy Zarzavatdjian
Managing Partner Growth Capital (from 1 April 2008)
and Managing Partner Growth Capital Europe until 31 March 2008

Infrastructure

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

Assets under management (£m) as at 31 March	**2008**	2007
Own balance sheet	**501**	469
Managed funds	**348**	-
Advised funds	**364**	385*
	1,213	854

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

Business model

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

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

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

3i Infrastructure Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Michael Queen
Managing Partner

Quoted Private Equity (“QPE”)

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

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

Business model

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

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

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

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

Strategy

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

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

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

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

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

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

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

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

Bruce Carnegie-Brown
Managing Partner

Venture Capital

Long-term performance

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

Returns from Venture Capital (£m)

year to 31 March	**2008**	2007
Realised profits over value on the disposal of investments	**65**	12
Unrealised (losses) on the revaluation of investments	**(88)**	(61)
Portfolio income	**6**	3
Gross portfolio return	**(17)**	(46)
Fees receivable from external funds	**-**	1

Business activity – investment and divestment (£m)

year to 31 March	**2008**	2007
Realisation proceeds	**170**	187
Investment	**(156)**	(200)
Net divestment/(investment)	**14**	(13)

Business model

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

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

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

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

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

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

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

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

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

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

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

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

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

Jo Taylor
Managing Partner

Financial review

Investment activity

Table 1: Investment by business line and geography (£m)
for the year to 31 March

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

Investment

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

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

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

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

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

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

Table 2: Realisation proceeds by business line and geography (£m)
for the year to 31 March

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

Realisations

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

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

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

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

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

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

Returns

Total return

Table 3: Total return

for the year to 31 March

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

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

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

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

Realised profits

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

Unrealised value movement

A detailed explanation of each of the different categories of unrealised value movement is contained within the Portfolio valuation section.

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

for the year to 31 March

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

Earnings multiples The deterioration of international equity markets in the year has led to a £162 million reduction (2007: £5 million increase) in valuations, due to lower multiples applied to portfolio earnings. At the year end, 28% (2007: 33%) of the Group's portfolio was valued on an earnings basis. Large differentials exist between multiples used to value the portfolio in Asia, Europe and the US. As a guide to how multiples have moved, the weighted average PE multiple has reduced by 7% from 11.6 to 10.8, and the weighted average EBITDA multiple reduced by 15% from 6.8 to 5.8 year on year. Approximately three quarters of the companies valued on an earnings basis are valued using an EBITDA multiple.

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

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

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

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

Portfolio income

Portfolio income for the year comprised dividend income of £56 million (2007: £81 million), interest receivable from loans of £149 million (2007: £158 million) and portfolio fees net of deal-related costs of £22 million (2007: £14 million). Portfolio income at £227 million (2007: £253 million) is lower, reflecting the high level of dividend income generated during the previous year following a significant distribution from infrastructure fund I^2, as well as a fall in interest income following the sale of a number of high-yielding buyouts during the first half of the year.

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

Table 5: Portfolio income
year to 31 March

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

Gross portfolio return

Table 6:
Gross portfolio return by business line
for the year to 31 March

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

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

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

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

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

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

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

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

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

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

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

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

Carried interest receivable
Carried interest aligns the incentivisation of 3i's investment staff and the management teams in 3i's portfolio with the interests of 3i's shareholders and those of fund investors.

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

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

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

Operating expenses

Table 7: Cost efficiency
for the year to 31 March

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

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

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

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

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

Other movements

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

Portfolio and assets under management

Assets under management

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

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

Table 8: Assets under management
as at 31 March

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

Table 9: Portfolio value by business line and vintage
as at 31 March

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

Table 10: Portfolio value by geography
as at 31 March

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

Portfolio assets directly owned by the Group

Table 11: 3i direct portfolio value by sector
as at 31 March

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

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

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

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

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

Assets managed or advised by 3i

Table 12: Managed and advised funds

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

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

These have grown by 37% (2007: 25%) in the period, reflecting growth in investment, the launch of 3i Quoted Private Equity Limited, a good performance from 3i Infrastructure Limited and value growth from Buyout co-investment funds managed by 3i. The source of these funds is well diversified internationally and by type of investor. Eurofund V has 62 Limited Partners and the 3i

India Infrastructure Fund 14 Limited Partners, excluding 3i and 3i Infrastructure Limited. 3i Quoted Private Equity Limited and 3i Infrastructure Limited are both listed companies.

Investor base for non-listed funds managed and advised by type of investor	%
Financial institutions	11
Fund of funds	24
Insurance companies	18
Pension funds	27
Private individuals	1
Endowment	4
Corporate investors	1
Government agencies	13
Other	1

Investor base for non-listed funds managed and advised by geographical location	%
North American	28
Middle East	9
Asia	8
UK	20
Rest of Europe	35

Capital structure, gearing and liquidity

Capital structure

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

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

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

Gearing

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

Liquidity

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

Growth in diluted net asset value

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

Table 13: Group balance sheet
as at 31 March

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

Consolidated income statement

for the year to 31 March

	Notes	2008 £m	2007 £m
Realised profits over value on the disposal of investments		**523**	830
Unrealised profits on the revaluation of investments		**291**	323
		814	1,153
Portfolio income			
Dividends		**56**	81
Income from loans and receivables		**149**	158
Fees receivable		**22**	14
Gross portfolio return	1	**1,041**	1,406
Fees receivable from external funds	1	**60**	37
Carried interest			
Carried interest receivable from external funds		**60**	81
Carried interest and performance fees payable		**(152)**	(142)
Operating expenses		**(274)**	(255)
Net portfolio return		**735**	1,127
Treasury interest receivable		**89**	91
Interest payable		**(105)**	(100)
Movements in the fair value of derivatives		**158**	(29)
Exchange movements		**(44)**	(31)
Other income		**1**	1
Profit before tax		**834**	1,059
Income taxes		**(6)**	(3)
Profit after tax and profit for the year		**828**	1,056
Earnings per share			
Basic (pence)	2	**207.9**	220.4*
Diluted (pence)	2	**173.4**	217.9*

*Restated for the deduction of own shares not previously taken into account.

Statement of recognised income and expense

for the year to 31 March

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Profit for the year	**828**	1,056	**882**	1,099
Exchange differences on translation of foreign operations	**6**	5	**-**	-
Revaluation of own-use property	**(1)**	1	**(1)**	1
Actuarial (losses)/gains	**(41)**	13	**-**	-
Total recognised income and expense for the year	**792**	1,075	**881**	1,100
Analysed in reserves as:				
Revenue	**111**	134	**94**	88
Capital	**675**	936	**787**	1,012
Translation reserve	**6**	5	**-**	-
	792	1,075	**881**	1,100

Reconciliation of movements in equity

for the year to 31 March

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Total equity at start of year	**4,249**	4,006	**4,020**	3,746
Total recognised income and expense for the year	**792**	1,075	**881**	1,100
Share-based payments	**8**	9	**8**	9
Ordinary dividends	**(70)**	(79)	**(70)**	(79)
Issue of B shares	**(808)**	(700)	**(808)**	(700)
Issues of ordinary shares	**19**	18	**19**	18
Buy-back of ordinary shares	**(120)**	(74)	**(120)**	(74)
Own shares	**(13)**	(6)	**-**	-
Total equity at end of year	**4,057**	4,249	**3,930**	4,020

Balance sheet

as at 31 March 2008

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Assets				
Non-current assets				
Investments				
Quoted equity investments	**889**	570	**770**	498
Unquoted equity investments	**3,209**	2,609	**1,050**	1,253
Loans and receivables	**1,918**	1,183	**513**	474
Investment portfolio	**6,016**	4,362	**2,333**	2,225
Carried interest receivable	**75**	83	**75**	83
Interests in Group entities	**–**	-	**3,140**	1,766
Property, plant and equipment	**30**	32	**8**	9
Total non-current assets	**6,121**	4,477	**5,556**	4,083
Current assets				
Other current assets	**49**	197	**182**	168
Derivative financial instruments	**24**	21	**24**	21
Deposits	**44**	1,668	**25**	1,668
Cash and cash equivalents	**752**	486	**611**	346
Total current assets	**869**	2,372	**842**	2,203
Total assets	**6,990**	6,849	**6,398**	6,286
Liabilities				
Non-current liabilities				
Carried interest payable	**(110)**	(153)	**–**	(153)
Loans and borrowings	**(1,509)**	(916)	**(1,224)**	(843)
B shares	**(21)**	(11)	**(21)**	(11)
Subordinated liabilities	**(14)**	(21)	**–**	-
Retirement benefit deficit	**(38)**	(1)	**–**	-
Deferred income taxes	**(2)**	(1)	**–**	-
Provisions	**(5)**	(7)	**–**	-
Total non-current liabilities	**(1,699)**	(1,110)	**(1,245)**	(1,007)
Current liabilities				
Trade and other payables	**(166)**	(179)	**(308)**	(191)
Carried interest payable	**(140)**	(71)	**–**	(42)
Loans and borrowings	**(373)**	(675)	**(373)**	(474)
Convertible bonds	**(433)**	(363)	**(433)**	(363)
Derivative financial instruments	**(108)**	(189)	**(108)**	(188)
Current income taxes	**(5)**	(2)	**(1)**	(1)
Provisions	**(9)**	(11)	**–**	-
Total current liabilities	**(1,234)**	(1,490)	**(1,223)**	(1,259)
Total liabilities	**(2,933)**	(2,600)	**(2,468)**	(2,266)
Net assets	**4,057**	4,249	**3,930**	4,020
Equity				
Issued capital	**283**	289	**283**	289
Share premium	**397**	387	**397**	387
Capital redemption reserve	**42**	27	**42**	27
Share-based payment reserve	**21**	18	**21**	18
Translation reserve	**11**	5	**–**	-
Capital reserve	**3,026**	3,280	**2,877**	3,013
Revenue reserve	**359**	318	**310**	286
Own shares	**(82)**	(75)	**–**	-
Total equity	**4,057**	4,249	**3,930**	4,020

Cash flow statement

for the year to 31 March

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash flow from operating activities				
Purchase of investments	**(2,072)**	(1,503)	**(2,246)**	(1,693)
Proceeds from investments	**1,824**	2,364	**1,733**	2,458
Interest received	**47**	68	**21**	47
Dividends received	**56**	66	**45**	30
Portfolio fees received	**22**	17	**–**	-
Fees received from external funds	**61**	37	**–**	-
Carried interest received	**67**	76	**67**	76
Carried interest paid	**(154)**	(58)	**–**	-
Operating expenses	**(243)**	(202)	**(108)**	(114)
Income taxes paid	**(7)**	(8)	**3**	-
Net cash flow from operations	**(399)**	857	**(485)**	804
Cash flow from financing activities				
Proceeds from issues of share capital	**19**	18	**19**	18
Buy-back of ordinary shares	**(120)**	(74)	**(120)**	(74)
Purchase of own shares	**(21)**	(20)	**–**	-
Disposal of own shares	**8**	8	**–**	-
Repurchase of B shares	**(798)**	(689)	**(798)**	(689)
Dividend paid	**(70)**	(79)	**(70)**	(79)
Interest received	**95**	80	**88**	73
Interest paid	**(125)**	(101)	**(79)**	(81)
Proceeds from long-term borrowings	**591**	1	**592**	-
Repayment of long-term borrowings	**(413)**	(2)	**(401)**	-
Net cash flow from short-term borrowings	**(133)**	211	**(133)**	213
Net cash flow from deposits	**1,624**	(560)	**1,643**	(616)
Net cash flow from financing activities	**657**	(1,207)	**741**	(1,235)
Cash flow from investing activities				
Purchase of property, plant and equipment	**(6)**	(9)	**–**	-
Sales of property, plant and equipment	**1**	2	**–**	1
Net cash flow from investing activities	**(5)**	(7)	**–**	1
Change in cash and cash equivalents	**253**	(357)	**256**	(430)
Cash and cash equivalents at start of year	**486**	847	**346**	776
Effect of exchange rate fluctuations	**13**	(4)	**9**	-
Cash and cash equivalents at end of year	**752**	486	**611**	346

Notes to the financial statements

1. Segmental analysis

Year to 31 March 2008	Buyouts £m	Growth Capital £m	Infrastructure £m	Quote Private Equity £m	Smaller Minority Investments £m	Venture Capital £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	**370**	**75**	**6**	**–**	**7**	**65**	**523**
Unrealised profits on the revaluation of investments	**245**	**160**	**43**	**(42)**	**(27)**	**(88)**	**291**
Portfolio income	**116**	**67**	**18**	**–**	**20**	**6**	**227**
	731	**302**	**67**	**(42)**	**–**	**(17)**	**1,041**
Fees receivable from external funds	**39**	**2**	**18**	**1**	**–**	**–**	**60**
Net (investment)/divestment							
Realisation proceeds	**858**	**503**	**57**	**18**	**136**	**170**	**1,742**
Investment	**(788)**	**(990)**	**(38)**	**(182)**	**(6)**	**(156)**	**(2,160)**
	70	**(487)**	**19**	**(164)**	**130**	**14**	**(418)**
Balance sheet							
Value of investment portfolio at end of year	**2,025**	**2,366**	**501**	**142**	**244**	**738**	**6,016**

Year to 31 March 2007	Buyouts £m	Growth Capital £m	Infrastructure £m	Quote Private Equity £m	Smaller Minority Investments £m	Venture Capital £m	Total £m
Gross portfolio return							
Realised profits over value on the disposal of investments	538	235	(15)	-	60	12	830
Unrealised profits on the revaluation of investments	123	269	3	6	(17)	(61)	323
Portfolio income	127	65	27	-	31	3	253
	788	569	15	6	74	(46)	1,406
Fees receivable from external funds	33	3	-	-	-	1	37
Net (investment)/divestment							
Realisation proceeds	1,341	691	5	-	214	187	2,438
Investment	(498)	(482)	(380)	(14)	(2)	(200)	(1,576)
	843	209	(375)	(14)	212	(13)	862
Balance sheet							
Value of investment portfolio at end of year	1,281	1,460	469	20	391	741	4,362

Year to 31 March 2008	UK £m	Continental Europe £m	Asia £m	US £m	Rest of World £m	Total £m
Gross portfolio return	**372**	**559**	**149**	**(30)**	**(9)**	**1,041**
Fees receivable from external funds	**37**	**18**	**5**	**–**	**–**	**60**
Net (investment)/divestment						
Realisation proceeds	**783**	**894**	**25**	**40**	**–**	**1,742**
Investment	**(972)**	**(707)**	**(171)**	**(303)**	**(7)**	**(2,160)**
	(189)	**187**	**(146)**	**(263)**	**(7)**	**(418)**
Balance sheet						
Value of investment portfolio at end of year	**2,250**	**2,573**	**679**	**497**	**17**	**6,016**

Year to 31 March 2007	UK £m	Continental Europe £m	Asia £m	US £m	Rest of World £m	Total £m
Gross portfolio return	716	692	25	(27)	-	1,406
Fees receivable from external funds	31	6	-	-	-	37
Net (investment)/divestment						
Realisation proceeds	1,169	1,159	54	56	-	2,438
Investment	(650)	(560)	(259)	(92)	(15)	(1,576)
	519	599	(205)	(36)	(15)	862
Balance sheet						
Value of investment portfolio at end of year	1,792	1,894	373	283	20	4,362

2. Per share information

	2008	2007
Net assets per share (pence)		
Basic	**1,091**	944
Diluted	**1,077**	932
Net assets (£m)		
Net assets attributable to equity holders of the Company	**4,057**	4,249

	2008 Number	2007 Number
Ordinary shares in issue	**382,741,094**	461,106,007
Own shares	**(10,867,901)**	(10,931,404)
	371,873,193	450,174,603
Effect of dilutive potential ordinary shares		
Share options	**4,954,110**	5,896,253
Diluted shares	**376,827,303**	456,070,856

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2008 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2007 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any statements under section 237(2) or (3) of the Companies Act 1985. This announcement does not constitute statutory accounts.

Note 2
The final dividend will be payable on 18 July 2008 to holders of shares on the register on 20 June 2008.

Note 3
Copies of the Report and accounts 2008 will be distributed to shareholders on or soon after 3 June 2008.

Note 4
This announcement may contain certain statements about the future outlook for 3i Group plc and its subsidiaries. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Portfolio valuation – an explanation

Our policy is to value 3i's investment portfolio at fair value and achieve this by valuing individual investments on an appropriate basis using a consistent methodology across the portfolio. The following guide explains the valuation methods used.

What is fair value?
Fair value is the value of an asset or liability in an arm's-length transaction between two willing and knowledgeable parties. This generally provides the best estimate of what we would receive if we sold the investment at the date of valuation. The Group's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), many of which are based on the concept of fair value.

Does 3i follow industry guidelines?
Yes. The Group complies with all material aspects of the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The IPEVC valuation guidelines specify the valuation methodology which is most appropriate to individual investments at a particular point in time.

Is an investment valued on the same basis throughout the period 3i is invested?
3i carries out a detailed valuation of its investment portfolio twice yearly. At each valuation point the investment is valued on the most appropriate basis. For example, if a portfolio company lists its shares on a stock exchange it would be valued on a quoted basis at the next valuation.

How are quoted investments valued?
Quoted investments are valued at closing bid price at the date of valuation. No discounts are applied for illiquidity of the stock or dealing restrictions, such as lock-up periods, provided investments are traded on an active stock market.

How are unquoted investments valued?
In line with the IPEVC valuation guidelines a number of different valuation methods are used for unquoted investments:

– Cost less provisions;
– Earnings;
– Net assets;
– Price of recent investment; or
– Imminent sale or IPO.

What proportion of the portfolio is valued on each valuation basis?
The portfolio for the year ended 31 March 2008 is valued on the following basis:

Cost less provisions	33%
Earnings	28%
Quoted equity investments at bid price	15%
Price of recent investment	5%
Imminent sale or IPO	3%
Net assets	1%
Other	15%

Note: Cost includes unquoted equity investments and Loans and receivables

Under what circumstances would an investment be valued on a cost basis?
For investments that are less than 12 months old, the price that 3i paid, ie cost, is considered the most appropriate valuation method. However the performance of the investment is also reviewed to see if any impairment should be made if the company is underperforming. When a full set of accounts (covering a period of at least six months following the investment) are received then those figures are used to prepare the valuation on an alternative basis to cost.

What does valuing an investment on an earnings basis actually mean?
The “earnings” basis is a very common basis of valuing unquoted companies when they are being bought or sold. Essentially a multiple is applied to the earnings of the company, to calculate an enterprise value. This enterprise value is the total value of the investment, including debt, any preferred financial instruments and equity. Before calculating the value of 3i’s shareholding in the company, the debt and any preferred instruments need to be deducted from the enterprise value. The total value of 3i’s investment is then the value of its equity plus any debt or preferred financial instruments that are due to 3i.

How do we calculate 3i’s share of the enterprise value?
We allocate the enterprise value to financial instruments which rank above 3i, such as senior loans. We then generally apply a marketability discount of 10%–30% in accordance with the IPEVC valuation guidelines. We can then allocate the remaining balance between equity holders dependent on individual shareholding.

What level of marketability discount is applied?
The marketability discount of 10%–30% is based on the Group’s influence over the exit prospects and timing for the company. A greater influence gained through a greater equity holding implies a smaller discount. In a smaller number of cases a greater discount may be applied if there are particular factors affecting the ability to sell.

What happens if the enterprise value is less than the loan amount?
This implies that there is a shortfall in the value of the loan. A decision based on the performance of the investment is then taken as to whether to recognise this shortfall.

How do we value loans?
We value loans using the “amortised cost” method, which is in accordance with IFRS. The amortised cost represents the amount at which the loan is measured at initial recognition, less principal repayments taking into account any premium or discount on the original loan amount. Effectively, this is cost less any provisions required. Interest income is recognised using the effective interest rate based on all the loan’s cash flows.

How are earnings defined?
The objective is to use maintainable earnings of the company in which 3i is invested. These are the “normal” earnings of the company, and are calculated by removing any ad hoc amounts included in the current year figures, such as profits on disposal of fixed assets or one-off expenses that are not expected to occur on a regular basis. The most common measure of earnings used for this calculation is earnings before interest and tax “EBIT”. Other measures used are earnings before interest, tax, depreciation and amortisation ”EBITDA”, or profit after tax. These figures are usually taken from the latest audited accounts, which cover a period of at least six months since the date of investment. A review of more recent management accounts is conducted to ensure that the audited accounts remain a valid basis.

Which multiple is appropriate to use?
Multiples need to be consistent with the measure of earnings chosen. Therefore EBIT multiples must be used with EBIT, EBITDA multiples with EBITDA and Price Earnings (“PE”) multiples used with profit after tax. The multiple used can be calculated using recent transaction information, external valuations or quoted sector multiples.

What happens if an investment is reporting a loss?
One of the other valuation methodologies can be used. For example the valuation can be prepared on a net asset basis.

What happens if the investment is failing?
If a company is failing or we consider that there is a 50% chance or more that it is likely to fail within the next 12 months, the equity element is valued at nil, and any loan element is valued at the lower of cost or net recoverable amount.

When is the price of recent investment basis used?
Venture capital investments often have a number of financing rounds during the life of the investment. The last round of financing can be used as a reference point to calculate fair value. To increase the value of an investment, the round of financing must have external parties investing.

What is the "other" basis of valuation?
"Other" includes DCF calculations, which estimate the present value of an investment's future cash flows. This methodology is most appropriate where cash flows over the life of an investment are predictable. This basis is commonly used for infrastructure investments, which are usually held over a long period of time and generate regular and predictable cash flows. "Other" could also include investments in funds valued based on 3i's share of net assets or investments in specific sectors such as insurance where industry specific benchmarks are used.

What happens if an investment is in the processs of being sold?
When an investment is in an advanced sales process, we will use the imminent sale basis of valuation, which uses the expected proceeds from the sale, applying a 10% marketability discount. We will consider the potential effect of completion conditions before moving an asset to this basis.

The valuation lifecycle
The following illustration walks through the valuation of an asset from investment to realisation.

3i invested £20 million in loans and £5 million in equity for a 25% equity holding in Investment A in year 1. Investment A is an oil and gas production company, based in Europe. The following description explains the valuation bases used throughout the ownership of Investment A.

Year 1 – Cost basis
The investment is less than a year old and there are no indications of impairment, therefore the valuation remains at cost. Total value £25 million.

Year 2 – Earnings basis
The audited accounts for Investment A are now available and the valuation can be prepared on an earnings basis, using a sector multiple as the most accurate multiple available for Investment A.

The audited EBITDA of Investment A are £10 million and the sector EBITDA multiple for the quoted European oil and gas production sector is 10x. There is also £20 million of external debt within Investment A that ranks above 3i's investment and needs to be included in the following valuation calculation:

	£m
Earnings – EBITDA	10
Multiple – Oil and Gas sector EBITDA multiple	x10
Enterprise value (earnings x multiple)	100
Less:	
Higher ranking loans (external debt)	(20)
Net enterprise value	80
Less:	
Marketability discount 25%	(20)
	60
Less:	
3i Loan	**(20)**
Amount attributable to equity holders	40
3i equity holding at 25%	**10**
Total value for 3i (loan and equity)	**30**

The calculation shows the sector multiple of 10x being applied to the EBITDA of Investment A of £10 million to derive the enterprise value. After reducing the enterprise value by £20 million for higher ranking loans a 25% marketability discount is applied. This reflects the fact that 3i has reduced influence due to its minority position. The value attributable to 3i and other shareholders is £60 million. 3i's loan ranks above equity holders and therefore this reduces the amount attributable to equity holders to £40 million. We can now apply the 3i equity holding percentage of 25% to £40 million to achieve the value of £10 million for 3i's equity. The total value to 3i is therefore £20 million for the loan and £10 million for equity, £30 million in total.

Year 3 – Earnings basis
Following year 2 the valuation is updated for the performance of Investment A. Earnings have increased to £12 million and the sector multiple has increased to 11x and there is no reason to change the valuation basis, therefore an earnings basis continues to be used. As other factors have remained the same as for year 2, the valuation of 3i's equity investment has increased to £16 million and the loan value remains at £20 million. Total value: £36 million.

Year 4 – Imminent sale basis

We have been approached by an external buyer to purchase our equity and loan investment in Investment A for £50 million, and discussions are now in their final stages. This is now valued on an imminent sale basis. The cash has not been received at the time of valuation and therefore a 10% discount has been applied. The valuation is now calculated as the sum of the loan value (£20 million) and of the equity element (£25 million) which together total £45 million.

Year 5 – Realisation

The investment is sold and is no longer held in the portfolio at the year end. If proceeds are different to the imminent sale value there would be a realisation profit or loss.

Ten largest investments

Investment (Business line) (Geography) **Business description** (First invested in)	Valuation basis	Proportion of equity shares held	Residual cost £m	Valuation £m	Income in the year £m	Net Assets £m	Earnings £m
3i Infrastructure Limited [1]							
(Infrastructure) (UK)							
Quoted investment company, investing in infrastructure (2007)	Quoted						
Equity shares		46.2%	325	363	6		
			325	**363**	**6**		
Giochi Preziosi S.r.l							
(Buyouts) (Italy)							
Retailer and wholesaler of toys (2005)	Imminent sale						
Equity shares		37.8%	63	151	-		
			63	**151**	**-**	**103**	**3**
3i Quoted Private Equity Limited [2]							
(QPE) (UK)							
Quoted investment company, investing in quoted companies (2007)	Quoted						
Equity shares		44.9%	181	140	-		
			181	**140**	**-**		
Venture Production plc [3]							
(Growth) (UK)							
Oil and gas production (2007)	Quoted						
Equity shares		23.5%	34	50	2		
Loans			77	77	1		
			111	**127**	**3**	**281**	**48**
Viridis Holding S.p.A. (Global Garden Products)							
(Buyouts) (Italy)							
Garden power tools (2007)	Cost						
Equity shares		33.7%	4	5	-		
Loans			100	111	-		
			104	**116**	**-**	**140**	**6**
DNA Oy [4]							
(Growth) (Finland)							
Telecom operator (2007)	Cost						
Equity shares		13.0%	97	113	-		
			97	**113**	**-**	**201**	**(19)**
Enterprise Group Holdings Limited [5]							
(Buyouts) (UK)							
UK Utilities and public sector maintenance outsourcing (2007)	Cost						
Equity shares		32.2%	3	3	-		
Loans			108	108	12		
			111	**111**	**12**	**(28)**	**(38)**
ACR Capital Holdings Pte Limited							
(Growth) (Singapore)							
Reinsurance in large risk segments (2006)	Other						
Equity shares		10.2%	105	110	-		
			105	**110**	**-**	**307**	**8**
Quintiles Transnational Corporation [6]							
(Growth) (US)							

Contract research outsourcing company (2008)	Cost						
Equity shares		7.0%	100	101	-		
			100	**101**	**-**	**(228)**	**(93)**
Anglian Water Group Limited							
(Infrastructure) (UK)							
Provider of drinking water and waste water services (2006)	Other						
Equity shares		5.5%	-	12	7		
Loans			86	86	3		
			86	**98**	**10**	**1,493**	**335**

Notes

1 3i Infrastructure Limited was incorporated in March 2007 and subsequently listed on the London Stock Exchange. No audited accounts are yet available, consequently no net assets or earnings are disclosed.
2 3i Quoted Private Equity Limited was incorporated in March 2007 and subsequently listed on the London Stock Exchange. No audited accounts are yet available, consequently no net assets or earnings are disclosed.
3 Equity element is valued as listed, and loans are valued using amortised cost.
4 The audited accounts for DNA Oy are for the year ended 31 December 2006 and are proforma accounts. EBIT has been used for the earnings figure.
5 The net liabilities and earnings figures have been extracted from the audited accounts of Enterprise Group Holdings Limited for the seven month period ended 31 December 2007. The acquisition of Accord in September 2007 is included in these results.
6 The audited accounts of Quintiles Transnational Corporation are for the year ended 31 December 2006.

Forty other large investments

In addition to the ten largest investments, detailed below are forty other large investments which are substantially all of the Group's investments valued over £33 million. This does not include two investments that have been excluded for commercial reasons.

Investment Description of Business	**Business line**	**Geography**	**Valuation basis**	**First invested**	**Residual Cost £m**	**Valuation £m**
Boxer TV-Access AB Digital TV distributor	Growth	Sweden	Earnings	2005	56	97
Inspicio Sarl Global testing and inspection	Buyouts	UK	Cost	2007	91	91
Sistemas Technicos de Encofrados S.A. (STEN) Sale and rental of formwork and scaffolding equipment	Growth	Spain	Earnings	2006	78	89
Telecity Group plc Services for internet service providers	Buyouts	UK	Quoted	1998	16	83
DEUTZ Power Systems GmbH Provider of decentralised power generation systems	Buyouts	Germany	Cost	2007	68	80
Sortifandus S.L. (GES – Global Energy Services) Wind power service provider	Buyouts	Spain	Earnings	2006	35	79
Ambea AB (H-Careholding) Elderly, primary and specialist care	Buyouts	Sweden	Earnings	2005	20	77
Hyva Investments BV Branded hydraulics for commercial vehicles	Buyouts	Netherlands	Earnings	2004	4	75
Newco Sourcing Limited (British Seafood) Seafood sourcer, processor and importer from Far East	Growth	UK	Cost	2007	72	72
CDH China Growth Capital Fund II LP China growth capital fund	Growth	China	Other	2005	18	67
Mold Masters Luxembourg Holdings Sarl Leading plastic processing technology provider	Growth	Canada	Cost	2007	67	66
Eltel Networks Oy Network services	Buyouts	Finland	Other	2007	74	66
Laholm Intressenter AB (DIAB) Polymer-based sandwich construction laminates	Growth	Sweden	Earnings	2001	8	65
Volnay B.V. (VNU Media) Dutch recruitment classified advertising	Buyouts	Netherlands	Earnings	2007	51	61
Polyconcept Investments B.V. Supplier of promotional products	Growth	Netherlands	Earnings	2005	27	59
Aviapartner Group S.A. Airport ground handling	Buyouts	Belgium	Earnings	2005	49	58
Ultralase Group Limited Laser vision correction surgery	Buyouts	UK	Cost	2008	58	58
Jake Holdings Limited (Mayborn) Manufacturer and distributor of baby and household products	Buyouts	UK	Earnings	2006	58	57
Planet Acquisitions Holdings Limited (Chorion) Owner of intellectual property	Buyouts	UK	Other	2006	58	57
Mundra Port & Special Economic Zone (MPSEZ) Port and Special Economic Zone operator	Growth	India	Quoted	2006	34	53
Nimbus Communications Limited Media and entertainment services	Growth	India	Other	2005	39	53
Navayuga Engineering Company Limited Engineering and construction	Growth	India	Earnings	2006	23	52
Norma Group Holding GmbH Provider of plastic and metal connecting technology	Buyouts	Germany	Earnings	2005	28	52

Gain Capital Holdings Inc Retail online foreign exchange trading	Growth	US	Cost	2008	48	49
Inspecta Holding Oy Supplier of testing and inspection services	Buyouts	Finland	Cost	2007	40	47
Scandferries Holding AG (Scandlines) Ferry operator in the Baltic Sea	Buyouts	Germany	Cost	2007	40	47
Emperor I Limited (Bestinvest) Wealth management	Buyouts	UK	Cost	2007	47	47
Welspun Gujarat Stahl Rohren Limited Oil and gas line pipe manufacturing	Growth	India	Quoted	2007	40	47
Consulting 1 S.p.A (Targetti Sankey) Design and manufacturer of lighting fixtures	Growth	Italy	Cost	2007	38	45
Dockwise Specialist in heavy transport shipping within the marine and oil and gas industry	Buyouts	Netherlands	Quoted	2007	1	44
Hobbs Holdings No.1 Limited Retailer of women's clothing and footwear	Buyouts	UK	Earnings	2004	42	42
Demand Media Inc Internet/media domain name registry services	Venture	US	Further Advance	2006	31	41
Car Interior Design Holding GmbH (CID) Manufacturer of vehicle interior trim	Growth	Germany	Earnings	2004	21	40
3i India Infrastructure Holdings Limited Fund investing in Indian infrastructure	Infrastructure	India	Cost	2007	36	38
Everis Participaciones S.L. IT consulting business	Growth	Spain	Cost	2007	30	35
Goromar XXI, S.L. Manufacturer of frites, glazes and colours for tiles	Buyouts	Spain	Earnings	2002	19	35
Azelis Group Distributor of specialty chemicals, polymers and related services	Buyouts	Italy	Cost	2007	30	35
Pearl (AP) Group Limited (Agent Provocateur) Women's lingerie and associated products	Buyouts	UK	Cost	2007	35	35
Alö Intressenter AB Manufacture of front end loaders	Growth	Sweden	Earnings	2002	32	33
TS Marine (Contracting) Limited Oil services	Growth	UK	Cost	2008	33	33

3i and Transparency

For over 60 years, 3i's objective has been to take an open and straightforward approach to doing business and describing what we do to those who have an interest.

Our track record

Long before becoming a public company in1994, 3i produced an annual report which went beyond what was required from a legal perspective. We do this because we think it is good for our business, especially as we have grown 3i internationally and in markets where the Private Equity model is less familiar. Once 3i became listed on the London Stock Exchange in July 1994, and shortly afterwards became a FTSE 100 company, its peer group consisted of other members of the FTSE 100 as well as PE firms. 3i is regularly ranked in surveys against these peers. At the UK 2007 Investor Relations Society Best Practice awards in April 2007, our 2006 Annual report was one of four short listed for the Best Annual report: Most effective communication FTSE 100 award. 3i's Corporate responsibility report for 2006 was awarded top place.

As the industry's profile increased, as PE became mainstream as an asset class for investors and as PE firms have bought larger businesses and businesses with a higher profile, the demand for greater transparency and public disclosure also increased.

In 2007, there was a considerable amount of press coverage in many countries about the role of Private Equity and in the UK there was a formal Treasury Select Committee Review. 3i played an active role in this debate and the Group's Chief Executive, Philip Yea, gave evidence at the committee with the heads of other leading Private Equity firms. During this review, 3i's 2007 Annual report was commended by the Chairman of the Treasury Select Committee, John McFall.

3i has also been very active in ensuring that there is comprehensive and timely information available online. According to IR WebReport's 2007 survey of 535 large-cap international companies, 3i's investor relations website - www.3igroup.com - ranks fifth globally and second in the global Financials sector.

The Walker review

The review by Sir David Walker in 2007, which produced "Guidelines for Disclosure and Transparency in Private Equity" in November 2007, was actively supported by 3i. 3i Group's Chairman Baroness Hogg was a member of the Review Group and Philip Yea, 3i's Chief Executive and Patrick Dunne, 3i's Communications Director were both members of the committee within the British Private Equity and Venture Capital Association ("BVCA") which proposed the review.

What was the Walker review?
In response to the growing debate about the role of Private Equity in the UK, the BVCA suggested a review be conducted by Sir David Walker, the highly-respected City figure, to examine ways in which levels of disclosure in companies backed by the UK Private Equity industry could be improved.

Sir David, Senior Advisor at Morgan Stanley International (former Chairman of Morgan Stanley International, former Executive Director Bank of England, and former Chairman of the Securities and Investments Board) chaired an independent industry working group which was tasked with drawing up a voluntary code, addressing the levels of disclosure in the industry and how it should communicate with a wide range of stakeholders.

The working group recognised the very different types of investment and issues relating to different segments of the industry from small start-up financing to large buyouts. It also took account of the size of the portfolio companies concerned. It received support from across the industry.

The working group consulted widely and invited representations from within the private equity industry, with interested parties and among other financial institutions, pension funds and the investment community as well as more broadly portfolio companies, trade unions and employer representatives.

How did 3i engage and input to the Walker process?
3i engaged with the Walker process in a very active way through the BVCA Big Buy Out committee, through its own submission to the Working Group and through the input of Baroness Hogg and other senior executives at 3i. 3i also gave its support for the recommendations when they were published in November 2007.

What were Sir David Walker's recommendations?
Sir David Walker's recommendations with respect to reporting for Private Equity firms and their relevant portfolio companies were on a "comply or explain" basis. He also had a number of recommendations for the industry as a whole.

For Private Equity firms:

The guidelines apply exclusively to UK Private Equity firms authorised by the FSA, that are managing or advising funds that either own or control one or more UK companies. The guidelines say that such Private Equity firms should produce an annual review, accessible via a website, which:

– communicates how the Private Equity practice fits into the firm and confirm that arrangements are in place to deal with conflicts of interest;

– provides some commentary on history, investment approach and investment holding periods;

– commits to conform to the guidelines on a "comply or explain" basis;

– provides details on the leadership of the UK firm and describes the UK firms meeting the portfolio criteria below; and

– provides a categorisation of the limited partners in its funds and follows established guidelines in reporting to their limited partners.

For Private Equity backed portfolio companies:

The guidelines apply to portfolio companies which are:

– acquired by one or more private equity firms in a public-to-private transaction, where the market capitalisation together with the premium for acquisition of control was in excess of £300 million; and

– acquired by one or more private equity firms in a secondary or other non-market transaction, where the enterprise value at the time of the transaction was in excess of £500 million.

And, in each case, where more than 50% of the revenues were generated in the UK and UK employees totalled in excess of 1,000 full-time equivalents.

Portfolio companies meeting these criteria should publish annual reports and accounts on their websites within six months of the year end and include:

– the identity of the private equity fund or funds that own the company, the senior managers or advisers who have oversight of the fund or funds and detail on the composition of its board;

– a business review that substantially conforms to section 417 of the Companies Act 2006; and
– a financial review to cover risk management objectives and policies, including those relating to leverage.

Portfolio companies should also:

– publish a summary mid-year update no later than three months after mid-year; and

– provide data to the BVCA in support of its work in aggregating data for the industry as a whole.

For the industry as a whole:

– increase industry-wide reporting and intelligence and, in particular, to undertake rigorous evidence-based analysis of the economic impact of Private Equity activity; and

– establish a guidelines review and monitoring capability.

So how does 3i measure up against the Walker guidelines?
3i is fully compliant with the Walker guidelines.

As a Private Equity firm:

– 3i's annual and half-yearly reports are fully compliant;

– our 3i.com and 3igroup.com websites provide substantially more information than is required by the Walker guidelines;

– we have high levels of employee engagement. 92% of our staff took part in the latest staff survey and 3i exceeded 19 of the 20 Ipsos Mori Top Ten norms. Further information regarding employee engagement is provided in our Corporate responsibility report;

– regular surveys of shareholders evidence strong satisfaction with the level and nature of communications;

– 3i has a well-developed approach to communicating with the LP investors in the funds which it manages or advises with a regular flow of information, as well as events and meetings. Investors are also encouraged to provide feedback;

– 3i's website 3i.com contains a large number of endorsements from the management teams of portfolio companies who work with 3i;

– regular surveys of journalists' views on the industry and on the Company undertaken by Ipsos Mori show high levels of trust in 3i and satisfaction with press communications;

– 3i has a well-developed compliance function which ensures that arrangements are in place to deal with conflicts of interest. There is a formal Conflicts Committee which reports to our Operational Risk Committee; and

– 3i provides extensive information on the leadership of the UK firm and the Group as a whole.

Portfolio companies:
3i has two portfolio companies which fit the Walker criteria for enhanced disclosure. These are Anglian Water Group Limited, an infrastructure investment, and Enterprise Group Holdings Limited, a mid-market Buyouts investment. Both of these companies were formerly public companies listed on the London Stock Exchange.

Anglian Water Group's year end is 31 March and its Annual report and accounts for the year to 31 March 2008 are expected to be published in June 2008 and expected to be fully Walker compliant. The company's website – www.awg.com – already contains a high level of disclosure.

Enterprise's year end is 31 December and its Annual report and accounts for the year to 31 December 2007 and website – www.enterprise.plc.uk – are fully Walker compliant.

This 3i Annual report also contains 15 detailed case studies comprising the two largest investments and the two largest realisations by value together with the next largest investments in the portfolio for our Buyouts, Growth Capital and Venture Capital business lines. Details of forty other large investments are also included in this report.