8 May 2009

# 3i Group plc announces full year results to 31 March 2009

**Preliminary results for the year to 31 March 2009**

**Key points**

- Net divestment of £340 million (investment of £968 million, realisations of £1,308 million)
- Reduction in NAV per share from £10.77 to £4.96 per share
- Total assets under management of £8.0 billion (2008: £9.8 billion)
- £732 million underwritten rights issue announced today

| | **2009** | 2008 |
|---|---|---|
| **Investment activity** | | |
| Investment | **£968m** | £2,160m |
| Realisation proceeds | **£1,308m** | £1,742m |
| Net divestment/(investment) | **£340m** | £(418)m |
| | | |
| **Returns** | | |
| Gross portfolio return on opening portfolio value | **£(2,206)m** | £1,041m |
| Gross portfolio return | **(36.7)%** | 23.9% |
| Total return | **£(2,150)m** | £792m |
| Total return on opening shareholders' funds | **(53.0)%** | 18.6% |
| Dividend per ordinary share already paid | **6.3p** | 17.0p |
| | | |
| **Portfolio and assets under management** | | |
| Own balance sheet | **£4,050m** | £6,016m |
| External funds | **£3,969m** | £3,776m |
| Total assets under management | **£8,019m** | £9,792m |
| | | |
| **Balance sheet** | | |
| Gearing | **103%*** | 40% |
| Diluted net asset value per ordinary share | **£4.96** | £10.77 |

* Before the rights issue and the effects of the acquisition of the assets of 3i QPE plc, which would result in a pro forma gearing at 31 March 2009 of 42%.

**Baroness Hogg, Chairman of 3i Group plc**, said:
"We believe that the actions taken to reinforce 3i's financial strength give the company the time to manage its well-diversified portfolio to maximise value for shareholders, and to position us to take advantage of well-priced investment opportunities in the upturn."

**3i's Chief Executive, Michael Queen**, said:
"My immediate priority is to ensure 3i performs to its potential through the current downturn and is well placed to use its strong market position to take advantage of the opportunities that will be available as the global economy starts to recover. While the operating environment remains very challenging, I have great confidence in 3i's intrinsic strengths."

3i Group plc announces today an underwritten £732 million rights issue. The rights issue will accelerate the reduction of net debt, strengthen the balance sheet against further falls in value, facilitate maintenance of an investment grade credit rating, enable the Group to manage the existing portfolio over time to maximise returns and provide capital for new investment assets at a valuation low point.

In view of the rights issue, the Board has decided that there will be no final dividend paid in respect of the year to 31 March 2009.

**Please refer to the separate press release today for further details.**

**The securities to be issued in connection with the rights issue have not been, and will not be, registered under the United States Securities Act 1933, as amended, and may not be offered or sold in the United States unless they are registered under applicable law or exempt from registration. The Company does not intend to register any securities in the United States or to conduct a public offering of securities in the United States.**

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## For further information, please contact:


| | |
|---|---|
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**For further information regarding the announcement of 3i's annual results to 31 March 2009, including a live videocast of the results presentation from 08:45am, please see** www.3igroup.com.

**Notes to editors**
3i is a mid-market private equity business. We focus on buyouts, growth capital and infrastructure, investing across Europe, Asia and North America.

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.

The following three tables are included here, for quick reference, and will also be included in the Financial review section of the full RIS

**Total return** (£m)
for the year to 31 March

| | 2009 £m | 2008 £m |
|---|---|---|
| Realised profits over value on the disposal of investments | **63** | 523 |
| Unrealised (losses)/profits on the revaluation of investments | **(2,440)** | 291 |
| | **(2,377)** | 814 |
| Portfolio income | | |
| Dividends | **65** | 56 |
| Income from loans and receivables | **108** | 149 |
| Fees receivable | **(2)** | 22 |
| **Gross portfolio return** | **(2,206)** | 1,041 |
| Fees receivable from external funds | **75** | 60 |
| Carried interest | | |
| Carried interest receivable from external funds | **(3)** | 60 |
| Carried interest and performance fees payable | **56** | (152) |
| Operating expenses | **(250)** | (274) |
| **Net portfolio return** | **(2,328)** | 735 |
| Interest receivable | **34** | 89 |
| Interest payable | **(120)** | (105) |
| Movement in the fair value of derivatives | **(38)** | 158 |
| Exchange movements | **505** | (44) |
| Other finance income | **3** | 1 |
| **(Loss)/profit before tax** | **(1,944)** | 834 |
| Income taxes | **(4)** | (6) |
| **(Loss)/profit after tax** | **(1,948)** | 828 |
| Reserve movements (pensions, property and currency translation) | **(202)** | (36) |
| **Total recognised income (“Total return”)** | **(2,150)** | 792 |

| **Unrealised (losses)/profits on revaluation of investments**<br>year to 31 March | **2009**<br>**£m** | 2008<br>£m |
|---|---|---|
| Earnings and multiples based valuations | | |
| Equity - Earnings multiples | **(412)** | (162) |
| - Earnings growth | **14** | 307 |
| Loans - Impairments (earnings basis) | **(620)** | (16) |
| First-time movements from cost | **(584)** | 154 |
| Other bases | | |
| Provisions | **(156)** | (150) |
| Uplift to imminent sale | **(140)** | 83 |
| Loans - Impairments (other basis) | **(228)** | (22) |
| Other movements on unquoted investments | **(188)** | 33 |
| Quoted portfolio | **(126)** | 64 |
| **Total** | **(2,440)** | 291 |

| **Portfolio income**<br>year to 31 March | **2009**<br>**£m** | 2008<br>£m |
|---|---|---|
| Dividends | **65** | 56 |
| Income from loans and receivables | **108** | 149 |
| Fees receivable | **(2)** | 22 |
| **Portfolio income** | **171** | 227 |
| Portfolio income/opening portfolio (“income yield”) | **2.8%** | 5.2% |

| **Gross portfolio return by business line**<br>year to 31 March | Gross portfolio return | | Return as a % of opening portfolio | |
|---|---|---|---|---|
| | **2009**<br>**£m** | 2008<br>£m | **2009**<br>**%** | 2008<br>% |
| Buyouts | **(678)** | 731 | **(34)** | 57 |
| Growth Capital | **(1,035)** | 302 | **(44)** | 21 |
| Infrastructure | **(50)** | 67 | **(10)** | 14 |
| QPE | **26** | (42) | **18** | n/a |
| SMI | **(53)** | – | **(22)** | – |
| Venture Portfolio | **(416)** | (17) | **(56)** | (2) |
| **Gross portfolio return** | **(2,206)** | 1,041 | **(37)** | 24 |

| **Gross portfolio return by year**<br>year to 31 March | % |
|---|---|
| 2005 | 16.7 |
| 2006 | 24.4 |
| 2007 | 34.0 |
| 2008 | 23.9 |
| 2009 | (36.7) |

# Chairman’s statement

## “We believe that the actions being taken to reinforce 3i’s financial strength give your Company the time to manage its well-diversified portfolio to maximise value for shareholders, and position us to take advantage of well-priced opportunities in the upturn.”

During the year to 31 March 2009, 3i’s net asset value per share fell from £10.77 to £4.96, in sharp contrast to the strong returns of the previous five years. The most rapid economic downturn in 3i’s history, the dislocation of capital markets and the collapse of mergers and acquisitions activity all undermined the value of our portfolio. It also led to a significant increase in the leverage on our balance sheet, which itself magnified our negative return.

The largest single element of the decline in the value of our investments is due to the fall in quoted market multiples used to value most of our unrealised investments. While the prices at which we have been able to realise investments have been depressed by the collapse in mergers and acquisitions activity that accompanied the credit crunch, we still achieved an average 5% uplift to opening value on the £1.3 billion of realisations during the year.

However, in these highly uncertain economic times, we believed that we should again review our approach to the valuation of our portfolio. Two examples of this are the decisions the Board has taken to carry no assets at cost at 31 March, and to value the non-core SMI and Venture portfolios at the level of expected proceeds.

The disposal of a number of assets in these portfolios, together with the decision to bring 3i’s Quoted Private Equity business back on to our balance sheet, are amongst the actions that have been taken to improve the Group’s financial position since the appointment of Michael Queen as Chief Executive on 28 January 2009. The decline in asset values drove our gearing to 103% at the year end, and the Board therefore asked Mr Queen to set a high priority on the reduction of debt. Today’s announcement of a rights issue is a further important step on the road to his objective, which is to bring 3i’s net debt down to about £1 billion over the next 12 to 15 months.

The £732 million underwritten rights issue approved by the Board will enable 3i to strengthen its balance sheet. It will also provide flexibility and further capacity for 3i to manage existing assets for value over time and invest in new opportunities as they arise.

The Company paid an interim dividend of 6.3p per share on 7 January 2009 for the year to 31 March 2009. The Board has decided, in the light of the Group's financial results for the year and the proposed rights issue, not to recommend a final dividend for the year ended 31 March 2009. For the year to 31 March 2010 the Board intends to pay a total dividend at least as high in aggregate as the amount paid in respect of the year ended 31 March 2009 (£24 million), and remains committed to the principle of paying an increasing dividend thereafter.

The appointment of Michael Queen followed the decision of the Board to put in place a Chief Executive who would take 3i through the challenges of a deep and potentially prolonged recession and focus on rebuilding the Company’s financial strength. His predecessor, Philip Yea, did a great deal to lead and develop 3i through the previous years of growth, for which I would like to express the Board’s thanks. In view of Michael’s successful stewardship of

Growth Capital and launch of 3i's Infrastructure funds, the respect with which he is held in 3i and his deep knowledge of the private equity industry, the Board decided that he was the outstanding candidate to succeed Philip Yea.

Other Board changes during the year include the appointment of Julia Wilson as Finance Director. Julia, who knows 3i well as she first joined us as Deputy Finance Director, is currently on maternity leave and her operational responsibilities are being ably managed by Stephen Halliwell, Chief Financial Officer of 3i's Infrastructure business line, and Ian Nolan, who has been appointed to the Management Committee as Managing Partner, Investments.

The Board was also strengthened during the year by the appointment of a new non-executive Director, Richard Meddings, the highly-respected Finance Director of Standard Chartered Bank, who brings further valuable expertise to our discussions.

At the end of 2008-09, the Deputy Chairman, Oliver Stocken, reached nine years on the Board. Robert Swannell has therefore taken over the role of Oliver as Senior Independent Director and Chairman of the Audit and Compliance Committee. I would like to take this opportunity to thank both of them for their wisdom and support during this challenging year.

I closed my statement in May 2008 by warning 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 could be managed by the world's monetary authorities without precipitating recession or a sharp rise in inflation. It is now painfully clear that they could not avoid a deep recession; whether governments will manage to calibrate policy to avoid the subsequent pitfall of inflation remains to be seen. No economic forecasts can currently be relied on, but we believe that the actions being taken to reinforce 3i's financial strength will give your Company the time to manage its well-diversified portfolio to maximise value for shareholders, and position us to take advantage of well-priced investment opportunities when the upturn comes.

**Baroness Hogg**
Chairman
8 May 2009

# Chief Executive's statement

"While the operating environment remains very challenging I have great confidence in 3i's intrinsic strengths."

Having spent over 20 years at 3i, it is a great honour to have been appointed Chief Executive. 3i is one of the leading global private equity businesses with great brand strength, established business franchises, a strong network, and excellent people. My immediate priority is to ensure 3i performs to its potential through the current downturn and is well placed to use its strong market position to take advantage of the opportunities that will be available as the global economy starts to recover.

**Market environment**
This has been a very difficult year. The sub-prime mortgage crisis spread during the year to a broader liquidity crisis affecting all financial institutions. Significant capital raising by banks during summer 2008 failed to stop the downward momentum, leading to the failure of Lehman Brothers and government rescues of other financial institutions in most developed economies.

Multiple interventions and stimulus packages have failed to stop most western countries experiencing their sharpest downturn in economic activity since the 1930s. India and China, while continuing to grow, have done so at much slower rates than in recent years.

This environment has resulted in significant asset price deflation, with values of financial assets falling particularly sharply. 3i has been affected in three ways – through the fall in asset values, by the lack of liquidity available from the stressed banking sector, and by the fall in underlying economic demand for goods and services.

Activity in the private equity industry has fallen to the lowest level since 1997 with £87 billion invested in Europe during 2008 – this is a fall of 59% on the previous year. Fund raising has also slowed down and this will have a significant impact through the next few years with 2009 expected to be the lowest year for fund raising for a decade.

**Performance**
Total return of (53.0)% (2008: 18.6%) was mainly the result of valuation falls as a result of valuing assets using multiples derived from quoted markets, portfolio performance and realised losses on the sale of non-core assets and the impact of leverage.

During the year, we have been highly selective in the investments we have made, investing £968 million and adding 10 new companies to the portfolio. This level of investment is under half that of the previous year.

Realisations have also fallen, but at £1.3 billion (compared with £1.7 billion in 2008), this demonstrates that, even in the toughest economic conditions, there is considerable liquidity in the 3i portfolio.

The number of companies in the portfolio has continued to fall to 376 from 487 last year, as we continue to increase our investment focus to a smaller number of larger investments.

Assets on the Group balance sheet fell from £6,016 million last year to £4,050 million at 31 March 2009. The value of assets that 3i manages on behalf of third parties increased from £3,776 million to £3,969 million, resulting in total assets under management at the year end of £8,019 million (2008: £9,792 million).

Each of our core business lines was impacted by valuation falls and, as a result, each produced negative returns in the year. Despite this overall performance, there were encouraging aspects. We achieved an overall uplift of 5% on opening values on assets that we sold, despite selling into declining markets. Income from external funds grew in the year from £60 million to £75 million as we saw the benefit of a full year's fee income from the 3i India Infrastructure Fund. We also saw a small net positive contribution to returns from earnings in the underlying portfolio. This reflects the fact that while many companies are seeing falls in turnover and profits, others are still seeing the opportunity to grow market share or take advantage of growth in specific subsectors.

**Strategy and short-term priorities**

Since becoming Chief Executive, my main priorities have been to ensure 3i is financially robust and operationally agile to both withstand the downturn and be ready to take advantage of investment opportunities when the economy recovers.

Our core strategy remains valid, though timing and implementation will naturally alter to take account of economic conditions and reshaped priorities.

We remain committed to maintaining our international network, investing in Europe, Asia and North America as this remains an important strength of our business model.

Looking forward, we will concentrate on Buyouts, Growth Capital and Infrastructure as the three business lines where we have clearly differentiated products and, as a result, can build a sustainable competitive advantage.

Our decision to stop investing in new venture capital assets was based on inconsistent returns and an inability to scale this type of investing. Similarly, the accelerated sale of our remaining SMI assets reflects the need to focus on those business lines where we can achieve improved capital productivity.

We have also announced the decision to acquire the assets and business of 3i Quoted Private Equity plc and, subsequent to the year end, following a board recommendation, shareholders of that company have voted in favour of this proposal. The original idea behind 3i QPE was sound, ie that 3i could bring private equity skills to bear on listed companies. Unfortunately, the listed vehicle through which this was delivered was trading at a significant discount to net assets, resulting in 3i shareholders suffering a double discount to the underlying value of assets. This activity has now been absorbed within our Growth Capital business, although it is unlikely much new investment in listed stocks will take place in the near future.

Since the mid-1990s, 3i has managed external capital alongside its own balance sheet capital. Currently, 51% of investment assets are on balance sheet and 49% are managed or advised. Over the next few years, we intend to manage a higher proportion of capital on behalf of third parties such that, over time, the proportion held on balance sheet will fall to between 25% and 33%. I do not envisage this resulting in a fall in assets on balance sheet, but the majority of future increases in assets will not require additional shareholder capital. This will give 3i significant advantages in broadening the potential pool of capital available for investment. It will also provide shareholders with less volatile returns as a higher proportion of returns will be in the form of asset management and performance fees.

3i has experienced a period of expansion both internationally and by business line over the past five years. This, inevitably, increases cost. During the year, we have taken the opportunity to review our cost base and have identified cost savings of circa 15% through re-engineering certain processes, outsourcing and consolidating parts of our office network. Over the next year, we will continue this process and, in order to do this and meet the changing market environment, I have made a number of changes to the senior team.

In an investment business, particularly when in a bull market, experience is often an undervalued asset. I am very fortunate that on the Management Committee, Jonathan Russell, Guy Zarzavatdjian, Paul Waller, Ian Nolan and I have all worked together for over 20 years. A common understanding of what makes a good investment and experience of previous downturns is key to future prospects.

Ian Nolan was appointed Managing Partner, Investments, in what is a new role for 3i – Chief Investment Officer. Ian will be responsible for ensuring consistent quality and rigour in all investment decisions and that a consistent approach is taken across business lines.

Since the year end, Chris Rowlands has retired. Chris made a huge contribution to 3i, both in establishing our Growth Capital business and, as the Head of our Asia business, building our business in Asia. Everyone at 3i thanks him and wishes him every success in the next phase of his life.

Denise Collis, who was responsible for Human Resources, has left the Company since the year end. I would like to thank her for her support over the past few years. Kevin Dunn has taken over responsibility for Human Resources in addition to his existing responsibilities. Robert Stefanowski has joined the Company from GE Capital and is now responsible for North America and Asia. Bob brings great experience and rigour to this role.

Following my appointment as Chief Executive, Cressida Hogg has taken over my previous position as Managing Partner, Infrastructure. Cressida has been largely responsible for building this business since it was started four years ago.

As noted in the Chairman’s statement, Julia Wilson was appointed Finance Director during the year. She is currently on maternity leave and her operational responsibilities are being covered by a combination of Ian Nolan and Stephen Halliwell (Chief Financial Officer of 3i’s Infrastructure business line).

These changes enable 3i to move forward in a challenging environment. A combination of experience, external challenge and a leaner organisational structure will enable faster, more consistent decision making to both deal with current conditions and prepare for the future.

Given the economic challenge and more difficult investment environment I would like to thank all 3i staff for the huge commitment shown during the year. Our most recent staff survey highlights a high level of engagement.

**Balance sheet management**
Periods such as these are a significant test of any business strategy, risk management and control environment. I am encouraged that the investment discipline within our business lines has held up well and our active portfolio management is helping many businesses to ensure they will survive and prosper. We could not, however, escape the impact of significant falls in portfolio values on the overall level of gearing. As a consequence, gearing has risen to 103%. Looking forward, it is clear that financial risk needs to be reduced and borrowing should fall significantly over the next few years.

Our through-the-cycle gearing target of 30% to 40% has been significantly exceeded as asset values fell sharply in the second half of the year. Given that market movements are outside of our control, we will also target an absolute level of net debt. Our current objective is to reduce net debt from £1.9 billion to about £1.0 billion over the next 12 to 15 months.

The rights issue announced today, will make a significant impact on achieving this objective. Adjusting the balance sheet at 31 March 2009 for the impact of this capital, together with the impact of the 3i Quoted Private Equity plc transaction, will result in pro forma gearing of 42% and net debt of £1.1 billion.

Assets denominated in currencies other than sterling have historically been hedged using a combination of currency borrowings and short-term derivative contracts. In recent years, the use of short-term contracts increased. During the year, the cost of rolling over these contracts increased to such an extent that the Board decided to rely solely on currency borrowings as the hedging strategy.

In the short term, 3i is therefore only partially hedged through the use of matching borrowings and will be exposed to potential foreign exchange fluctuations. In order to reduce this exposure, the Board will review the introduction of a more comprehensive hedging strategy as a priority.

**Outlook**
Looking forward, we face an uncertain macroeconomic landscape. We are approaching this uncertainty by adopting a conservative financing strategy but preparing 3i to take advantage of the upturn.

The steps that have already been taken to boost balance sheet strength and liquidity through the rights issue and sales of non-core assets mean 3i is well funded.

Our three core businesses are also well placed to see excellent investment opportunities once it becomes clear the global economy is recovering.

Equity for private companies will be in short supply and our Growth Capital business with its international reach is one of the few significant investors that can fill this gap.

Many countries are now looking to the private sector to finance infrastructure investment, which is seen as a means of revitalising developed economies. We are well placed in Europe, North America and India to provide this capital.

We can also be confident that as the recovery becomes established, companies will re-define what are core and non-core activities. From previous cycles, we can see that this stimulates mergers and acquisitions activity, providing opportunities for the Buyouts business.

While the operating environment remains very challenging, I have great confidence in 3i's intrinsic strengths which will help it weather the difficult times while remaining alert to seize the opportunities that undoubtedly lie ahead.

**Michael Queen**
Chief Executive
8 May 2009

# Business review

## Introduction to the Group

| | |
|---|---|
| Total return | Gross portfolio return |
| **2009: (53.0)%** | **2009: (36.7)%** |
| 2008: 18.6% | 2008: 23.9% |
| Cost efficiency | Gearing |
| **2009: 3.0%** | **2009: 103%** |
| 2008: 5.0% | 2008: 40% |
| Net assets value movement* | |
| **2009: £(5.64)** | |
| 2008: £1.94 | |

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

| **The key business line performance measures are:** |
|---|
| Gross portfolio return |
| Portfolio health |
| Long-term IRRs by vintage |

| The key non-financial performance measures are: | |
|---|---|
| Employee engagement | Environmental impact* |
| **2009: 85.0%** | **2009: 8,428 $CO_2$ (tonnes)** |
| 2008: 84.0% | 2008: 9,309 $CO_2$ (tonnes) |

*Tonnes per year equivalent emissions

3i is a mid-market private equity business focused on buyouts, growth capital and infrastructure, investing across Europe, Asia and North America.

We invest from our own balance sheet and also with funds that we manage or advise on behalf of others.

Total assets under management at 31 March 2009 were £8.0 billion (2008: £9.8 billion), including £4.0 billion (2008: £3.8 billion) advised or managed on behalf of third parties.

The Group's total return is fundamentally driven by the realised and unrealised returns we generate from our portfolio, the fees we generate from advising or managing external funds and the costs of operating the business.
3i has a diverse portfolio by business line, geography and sector. Detailed descriptions, performance data and commentaries for each business line can be found in the Business review.

Buyout investments are made through managed funds, the latest of which is Eurofund V, a €5 billion fund including 3i's co-investment of €2.8 billion. Growth Capital investments are made directly from 3i's balance sheet. Infrastructure investments are made either through 3i Infrastructure plc, in which 3i has a 33.3% shareholding, the $1.2 billion 3i India Infrastructure Fund, to which the Group has a $250 million commitment, or directly from the Group's balance sheet.

During the year, the Group increased its focus on its core activities and took the decision to absorb its Quoted Private Equity business line into the Growth Capital business line. 3i also decided to accelerate the disposal of the non-core SMI and Venture portfolios. At 31 March 2009, the core Buyouts, Growth Capital and Infrastructure portfolios, which comprised of investments in 177 companies (2008: 213), represented 84% (2008: 81%) of total portfolio value. The total number of companies in the portfolio as at 31 March 2009 was 376 (2008: 487).

**Market conditions**

Conditions for private equity investment and realisations have been the most challenging for some time. A liquidity crisis, which spread through the banking system during 2008, undermined confidence in the capital markets and led to a broader economic slowdown in most of the world's major economies, as well as a significant reduction in mergers and acquisitions activity.

In addition to having a significant impact on portfolio valuations, these conditions had an effect on the levels of private equity investment, realisations and fund raising activity in Europe, Asia and North America, the regions of most importance to 3i. The market data referred to below for the final quarter of calendar year 2008 demonstrates how pronounced these effects were.

Levels of investment in almost all categories of private equity investing were significantly lower in 2008 than the previous year. Data from unquote" shows that overall European private equity investment fell by 59% to €87 billion in calendar year 2008 from 2007's record €198 billion. Investment in the final quarter to December 2008 at €8 billion was 74% lower than the year before.

European mid-market buyout investment, defined by unquote" as deals between €160 million and €1.65 billion, at €39 billion was less than half the amount in 2007. European growth capital investment was 7% higher than in 2007. However, 67% of this was in the first half of the year and only $1.3 billion was invested in the final quarter.
According to the Asian Venture Capital Journal, new private equity investment in "Asia Pacific", which includes the three main areas in which 3i is active (India, China and South East Asia) fell 38% in 2008, despite a rise of 8.2% in China. In India, which represents 3i's largest activity in the region overall, investment was down 38%.
The capital markets of most importance to 3i relate to the quoted markets for equities and the availability of debt finance. Despite major interventions by governments to protect the banking sector and to improve liquidity in the banking system, there was a collapse in confidence in public equity markets in the autumn of 2008. Falls in the FTSE 250, FTSE Euro MidCap, S&P 400 MidCap and Nikkei 225, over the year to 31 March 2009, were

consistent at 36%, 38%, 36% and 35% and were also accompanied by levels of significant volatility.

In this environment, the capital markets became almost closed to new listings. Ernst and Young compiled statistics for 2009 IPOs in Europe, the US and Asia Pacific record 50 deals globally in Q1 2009 raising a total of $1.4 billion (2008: 251 and S$41.2 billion), an 80% decrease in activity. The Q1 2009 saw the number of IPOs completed at its lowest level since Q1'03 and was dominated by activity in Asia (72% market share), with EMEA and North America making up 20% and 8% respectively.

The availability of debt in the leveraged finance market also sharply contracted. Standard & Poor's LCD Euro Stats reported new issue volume of just €1 billion during the first quarter of 2009, a 12 year record low.

Mergers and acquisitions activity was also affected. Europe targeted M&A totalled $182 billion in Q1 2009, down 42% from the previous year and the lowest activity level since Q3 2004.

Pricing of transactions was difficult in a market where there was lower visibility of earnings and few transactions from which to benchmark.

Fund raising by private equity firms also slowed during the year. Data from prequin, however, shows that as a result of a strong first half, the aggregate capital raised by private equity funds at $554 billion in 2008 only declined by 11% from the 2007 record level of $624 billion. Buyout funds at $216 billion were responsible for half of the non-real estate fund raising in 2008 and were responsible for six of the largest 10 fundraisings in the year, which collectively accounted for $67 billion.

The Infrastructure fund raising environment, however, remained attractive, as demonstrated by fundraising for the infrastructure asset class of $30 billion globally over the 12 months to April 2009, (prequin data).

Detailed descriptions of the conditions for each of our Buyout, Growth Capital and Infrastructure businesses are contained within the reviews.

**Group investment policy**

3i's investment policy, which as a closed ended investment fund it is required to publish, is as follows:

– 3i is an investment company which aims to provide its shareholders with quoted access to private equity returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and North America. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.

– 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. In addition, although 3i does not set maximum exposure limits for asset allocations, no more than 15% by value of 3i's portfolio can be held in a single investment.

– Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

When the Company published its investment policy in its Annual report and accounts for the year ended 31 March 2008, the Board also stated that it then considered it appropriate to operate with an optimum gearing ratio within a 30% to 40% range across the cycle. In light of the current dislocation in the debt markets and the substantial changes occurring and expected in the pricing and availability of debt finance, the Board intends to reconsider the appropriateness of this optimum range for the Group's gearing ratio in due course when markets are more settled. Furthermore, given that market movements are outside the Company's control, the Board will also target an absolute level of net debt, in addition to the optimum gearing ratio referred to above. If a material change to the investment policy is considered appropriate, the Board would seek the approval of shareholders for such a change.

**3i's investment approach**

Our approach to investing has evolved over many years and is driven by our belief that our reputation with whom we work is a key factor in our future success. 3i's investment track record is fundamental to our reputation, as are our values which are set out in our corporate responsibility report in our Annual report.

We further strengthened our model of combining business line expertise with geographic and sector knowledge and resources in the year, with an acceleration in the development of our “Active partnership” model and the appointment of a Managing Partner, Investments. This role is to ensure consistency of approach across our business lines, sectors and geographies, as well as to maximise the use of best practice and investment strategy.

Other aspects of our investing approach include our active partnership programme which is key to achieving the step increases in portfolio performance which drive returns, our business leaders network which provides access to high quality business leaders around the world, our debt advisory team which has been especially helpful in the environment of the last year and our open and transparent approach to conducting business. A brief description of each of these activities is provided below.

**Active partnership**
Creating value through effective portfolio company management is at the heart of any private equity firm’s performance, and never more so than in the current economic climate.

Over the last two years, we have taken a long-standing 3i philosophy of supportive investing and codified it into a rigorous methodology for effecting business change. It is an approach that we believe to be genuinely differentiated in terms of scale, rigour and effectiveness.

Our "Active partnership" approach builds upon 3i's traditional high engagement with the boards and management teams of our portfolio companies. We believe that superior performance is achievable by focusing on the key functions and value drivers within a portfolio company and then striving to make these functions “best in class”. This is delivered in practice by drawing upon the knowledge and experience we have developed across our portfolio and our ability to access a wide range of expertise from within and outside of our portfolio.

The programme operates in each of our Buyouts, Growth Capital and Infrastructure business lines, geographic regions and investment professionals are formally trained to identify potential performance improvement opportunities.

Success depends upon a targeted needs analysis for each portfolio company which is then followed up through facilitated knowledge-sharing and peer group learning between other portfolio companies, our Business Leaders Network and those in the broader 3i network. Examples of this have included lean operations, sales force effectiveness, communications and human resources management.

**Business Leaders Network**
3i’s Business Leaders Network (BLN) is a network of entrepreneurs, non-executive and executive directors, CEOs, CFOs and project consultants with whom 3i maintains active contact. The location and sector experience of these individuals are broadly aligned to 3i’s international network and the sectors within which it wishes to invest.

The network is a valuable resource for 3i. Members of the network provide assistance and know-how which help the business line teams identify investment opportunities and perform due diligence. Members of the BLN may also give 3i access to operational and market expertise. 3i may introduce members of the network to its portfolio companies, and on occasion appoint them to portfolio company boards, where 3i believes their expertise and contacts can add value for the portfolio company and, ultimately, to the value of 3i's investment.

Our Business Leaders Network team manages the relationships with members and potential members of the network to ensure that the composition of the network meets 3i's business requirements and is aligned to 3i's investment strategy. The composition of the network therefore changes over time. They also provide advice on recruitment to portfolio company boards, either using the network or working with external executive search agents with whom the team maintains relationships.

**Debt Advisory team**
3i's in-house banking team was formally established in 2005, creating a centre of excellence within 3i for best practice and market knowledge on arranging and managing debt for 3i's portfolio companies. The team also provides an additional source of value by working with the Group's Treasury team who manage the Group's banking relationships.

**Investment approach for the year to 31 March 2009**
In a market characterised by considerable uncertainty, 3i's approach has been to conserve capital, increase the focus on core activities, achieve efficiency gains and prepare the business to take advantage of the investment opportunities which we believe will emerge from the next phase of the cycle. As a consequence, realisations in the year exceeded new investment by £340 million and the Group invested in only 10 new portfolio companies.

**Openness and transparency**
Building on our reputation for openness and transparency is even more important when markets are more challenging. Hence we have further increased our disclosure in this report in several key aspects.

**Investment activity**

Table 1: **Investment activity - own balance sheet and external funds**
year to 31 March

| | 3i own balance sheet | | External funds | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **£m** | £m | **£m** | £m |
| Investment | **(968)** | (2,160) | **(749)** | (1,035) |
| Realisations | **1,308** | 1,742 | **360** | 584 |
| Net divestment/(investment) | **340** | (418) | **(389)** | (451) |

Investment activity in the year made directly from 3i's balance sheet and also that made on behalf of external funds reflected the market conditions, the Group's caution with respect to new investment and the actions taken to realise non-core assets.

The commentary which follows, refers to investment and realisations made from 3i's own balance sheet. Additional data relating to the amount of investment and realisations made on behalf of external funds managed or advised by 3i can be found in table 28.

The market backdrop for investment activity in the year to 31 March 2009 was characterised by uncertainty and a severe downturn in confidence. For both 3i and the funds we manage, visibility of earnings for potential new investments became less clear as the year progressed and general mergers and acquisitions activity contracted sharply. As a consequence, portfolio management was prioritised over new investment activity, which, as a result, was substantially lower than in the previous year. However, despite this difficult environment, the Group generated realisations of £1,308 million (2008: £1,742 million), including £711 million in the second half of the year (2008: £698 million).

The highly selective approach taken to new investment resulted in the Group completing only 10 (2008: 47) investments in new portfolio companies. Total investment in the year was £968 million (2008: £2,160 million), of which £300 million was in the second half of the year (2008: £926 million).

As a result, the Group generated net divestment of £340 million (2008: net investment £418 million) during the year, with realisations exceeding investment by £411 million in the second half (2008: £228 million, net investment).

**New investment**
During the year, 10 investments in new portfolio companies were made (2008: 47), totalling £514 million (2008: £1,834 million). A further £454 million (2008: £326 million) was invested in the existing portfolio, including capitalised interest of £127 million (2008: £46 million), bringing total investment for the year to £968 million (2008: £2,160 million).

The largest new investments in the year were £94 million in Growth Capital investment Labco, a leading pan-European diagnostics network and £84 million into the buyout of Memora, a market-leading funeral services provider with operations in Spain and Portugal. The largest investment in an existing portfolio company was £46 million to support the merger between 2008 US Growth Capital investment Fulcrum with Butterfield Fund Services to create one of the leading global fund administrators for the hedge fund and alternative investment management industry.

Investment has been made across a broad range of sectors. The largest proportion of investment by sector was in business services, which accounted for 20% of new investment in the year to 31 March 2009.
The average size of new investment remained firmly in the mid-market range at £57 million (2008: £37 million).

Investment in Buyouts totalled £519 million (2008: £788 million), including £64 million of further investment in the debt warehouse vehicle, £29 million of further investment into existing portfolio companies and capitalised interest of £117 million (2008: £39 million).

| Table 2: **Investment by business line and geography** (£m) year to 31 March | Continental Europe | | UK | | Asia | | North America | | Rest of World | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Core business lines | | | | | | | | | | | | |
| Buyouts | **278** | 415 | **223** | 371 | **16** | – | **-** | – | **2** | 2 | **519** | 788 |
| Growth Capital | **246** | 256 | **40** | 357 | **8** | 132 | **48** | 243 | **1** | 2 | **343** | 990 |
| Infrastructure | **-** | – | **28** | 2 | **21** | 36 | **-** | – | **1** | – | **50** | 38 |
| | **524** | 671 | **291** | 730 | **45** | 168 | **48** | 243 | **4** | 4 | **912** | 1,816 |
| Non-core activities | | | | | | | | | | | | |
| QPE | – | – | **3** | 182 | – | – | – | – | – | – | **3** | 182 |
| SMI | – | – | – | 6 | – | – | – | – | – | – | **–** | 6 |
| Venture Portfolio | **15** | 36 | **22** | 54 | **1** | 3 | **15** | 60 | – | 3 | **53** | 156 |
| | **15** | 36 | **25** | 242 | **1** | 3 | **15** | 60 | – | 3 | **56** | 344 |
| **Total** | **539** | 707 | **316** | 972 | **46** | 171 | **63** | 303 | **4** | 7 | **968** | 2,160 |

Growth Capital investment of £343 million was 65% lower than last year (2008: £990 million) and represented 35% of total investment. Venture Portfolio investment of £53 million has been on a selective basis, with the objective of strengthening positions ahead of sale.

In geographic terms, continental Europe accounted for over half of investment in the year at £539 million (2008: £707 million). A further £316 million (2008: £972 million) was invested in the UK, £63 million in North America (2008: £303 million) and £46 million (2008: £171 million) in Asia.

Despite relatively strong macroeconomic performance in Asia, the Group took a cautious approach to investment in this region. Total balance sheet investment in Asia was just £46 million (2008: £171 million). However, during the year, the newly established Asia Buyouts team completed its first investment (£16 million) in LHI, a manufacturer of medical cables. We have continued to make investments through the 3i India Infrastructure Fund, which completed its third investment during the year with a $161 million investment in Krishnapatnam Port Company Ltd.

### Realisations

Despite challenging mergers and acquisitions markets, the quality of 3i's portfolio and its mid-market profile has enabled the Group to continue to find opportunities to generate realisations. Total realisations in the year were £1,308 million (2008: £1,742 million), with 21% (2008: 28%) of the opening portfolio value sold during the year. These realisations were made on a selective basis.

Realisations during the second half of the year were stronger than in the first half, with proceeds of £711 million (2008: £698 million), of which £345 million was generated during the third quarter (2008: £429 million) and £366 million (2008: £269 million) during the final three months of the year. Notable realisations during the second half of the year include ABX, a Belgium-based logistics business, which generated a 5x money multiple and a 125% IRR for 3i and investors in Eurofund IV.

Buyouts and Growth Capital accounted for 73% (2008: 78%) of total realisations, generating £494 million and £461 million respectively. The largest realisation from the Buyouts portfolio was the sale in May 2008 of Italian toy manufacturer, Giochi Preziosi, which generated proceeds of £166 million and a 2.3x money multiple. The largest Growth Capital realisation, Swedish digital TV operator, Boxer, generated proceeds of £71 million and a 1.4x money multiple.

Infrastructure realisations totalled £117 million (2008: £57 million), including the sale of a proportion of the Group's holding in 3i Infrastructure plc which generated proceeds of £61 million.

Realisations from the Venture Portfolio increased by 23% during the year to £209 million (2008: £170 million). Having sold 43% of the opening portfolio value in the year, there are now 123 investments in the portfolio (2008: 180). The Venture Portfolio realisations also led to an increase in North American realisations, which increased to £106 million (2008: £40 million).

The continuing development of 3i's business in Asia also led to Asian realisations increasing to £127 million (2008: £25 million) in the year.

Table 3: **Realisation proceeds by business line and geography** (£m)
year to 31 March

| | **Continental Europe** | | **UK** | | **Asia** | | **North America** | | **Rest of World** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Core business lines | | | | | | | | | | | | |
| Buyouts | **404** | 471 | **90** | 387 | **–** | – | **–** | – | **–** | – | **494** | 858 |
| Growth Capital | **318** | 320 | **21** | 166 | **122** | 17 | **–** | – | **–** | – | **461** | 503 |
| Infrastructure | **–** | 6 | **117** | 51 | **–** | – | **–** | – | **–** | – | **117** | 57 |
| | **722** | 797 | **228** | 604 | **122** | 17 | **–** | – | **–** | – | **1,072** | 1,418 |
| Non-core activities | | | | | | | | | | | | |
| QPE | **–** | – | – | 18 | **–** | – | **–** | – | **–** | – | – | 18 |
| SMI | **15** | 27 | **12** | 109 | **–** | – | **–** | – | **–** | – | **27** | 136 |
| Venture Portfolio | **58** | 70 | **40** | 52 | **5** | 8 | **106** | 40 | **–** | – | **209** | 170 |
| | **73** | 97 | **52** | 179 | **5** | 8 | **106** | 40 | **–** | – | **236** | 324 |
| Total | **795** | 894 | **280** | 783 | **127** | 25 | **106** | 40 | **–** | – | **1,308** | 1,742 |

### Development of 3i's fund management and advisory business

As noted in the introduction, 3i invests from its own balance sheet and also with funds that we manage or advise on behalf of others. Table 28 contains details about the assets managed or advised by the Group. This information includes a schedule of the individual funds, including information about 3i's commitment to those funds and the demographics of investors in funds managed or advised by 3i.

Table 28 shows that since 2004, the major funds raised in the last five years have been for our Buyouts and Infrastructure business lines. The €3 billion Eurofund IV, for European mid-market buyouts, which had a final closing in June 2004, was 91% invested at 31 March 2009. The €5 billion Eurofund V mid-market buyout fund which also had the capability to invest up to 10% of the fund outside of western Europe, closed in November 2006 and is now 53% invested. There are two infrastructure vehicles, 3i Infrastructure plc, which was launched in March 2007 and has raised, in aggregate, £818 million of equity and the 3i India Infrastructure Fund, which closed in March 2008 at $1.2 billion and is now 41% invested.

3i has been a significant investor in each of these funds, committing €1.9 billion to Eurofund IV, €2.8 billion to Eurofund V, an aggregate £350 million to 3i infrastructure plc and $250 million to the 3i India Infrastructure Fund. In terms of direction, the Group is moving more towards a model where the Group's commitment will be between 25% and 33% of fund size. The Group's outstanding commitments to these funds at 31 March 2009 was £1,435 million (to Eurofund V).

The strategy of managing external funds has enabled the Group to increase the amount of capital for investment as well as to generate fees. Fee income from external funds has grown from £31 million in 2004 to £75 million in 2009.

Table 4: **Investment and realisations from funds managed or advised by 3i**
year to 31 March 2009

| | Investment | | Realisations | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **£m** | £m | **£m** | £m |
| Buyouts | **411** | 732 | **174** | 524 |
| Growth Capital | **1** | 1 | **8** | 21 |
| Infrastructure | **246** | 302 | **178** | 19 |
| QPE | **91** | – | – | – |
| SMI | **–** | – | – | 19 |
| Venture Portfolio | **–** | – | – | 1 |
| Total | 749 | 1,035 | 360 | 584 |

The Group has potential to raise further funds to support the development of our business. In raising further funds, 3i's track record through the downturn will be critical. Our reputation for high standards of governance and corporate responsibility and for the openness and quality of our communications with investors in our funds is also increasingly important.

## Business lines

### Buyouts

**The market**
The crisis in the banking sector, the macroeconomic slowdown, falling and highly volatile stock markets, combined with much reduced levels of mergers and acquisitions activity, produced a challenging environment for the buyout industry in the year to 31 March 2009. In these conditions, many private equity firms, including 3i, prioritised portfolio management activity over investment activity.

The shake out in the banking system has had a significant effect on the availability of debt for new transactions. We estimate that the number of active leveraged loan providers is now down by around two-thirds since 2007. Those remaining in the market are being highly selective about who they work with and have also tightened their terms.
Despite this contraction, there remains some appetite to lend to robust businesses with good forward visibility of earnings where both local relationships and the track record of the private

equity firm with banks are strong. This was evidenced by the buyout of Spanish funeral services business, Memora, in November 2008, in which 3i invested £84 million.

The impact of the above has been significant on mid-market buyout activity levels, which were down in value by 44% in 2008 compared to 2007 (source: unquote"/3i deal sizes €25 million to €1 billion). The decline was most pronounced in the final quarter of 2008, which was 73% below final quarter 2007 levels.

Limited Partners, are the main group of external investors in buyout funds. The decline in exits, especially at the larger end of the market, has meant that distributions to Limited Partners have reduced. This, combined with a reduction in public equity market values, has meant that some are now over-allocated to private equity as an asset class.

Consequently, 2009 looks like it will be a tough year for raising new buyout funds. The secondary market for existing fund investments is, however, active with some significant new funds focused on this area, as some Limited Partners look to reduce their existing commitments and exposures.

Those private equity firms that can deliver good performance from their portfolio across the cycle will be well placed to continue to raise future funds and to find the banking that they need to complete suitable transactions, albeit with a larger proportion of equity than seen in more recent vintages.

The private equity model has demonstrated a long-term track record of delivering returns. This is especially the case from investments made during the first phase of recovery, where pricing of companies is lower and the potential for earnings growth higher. Periods of economic turmoil lead to a rise in corporate restructurings which can generate buyout opportunities. These can also be attractive to high-quality management teams who feel constrained in organisations where capital is rationed.

We therefore anticipate that the second half of 2009 and 2010 may present some attractive new investment opportunities for those like 3i with strong origination networks and access to capital and management talent.

**Opportunities for 3i**
3i's Buyouts business has two major opportunities. The first is to deliver the full potential of our existing portfolio, ensuring that it is not only well positioned to survive the downturn but also to maximise its value from an economic recovery. The second is to use our market access to generate attractive new investment opportunities.

**Priorities for 3i**
In order to take these opportunities, the main priority for 3i's Buyouts business is to use our "Active partnership" approach and emphasis on operational performance to enable our portfolio companies not just to navigate the current difficult economic environment but also to take full advantage of organic and other opportunities. A further priority is to reinforce our positioning as a leader in mid-market buyouts and to continue to invest the second half of Eurofund V in attractive opportunities.

Finally, developing existing and new relationships with Limited Partner investors is important so that we are well placed for the raising of our next fund.

**Business model**

The business model for 3i's mid-market Buyouts business is consistent with the Group's overall vision and strategy. It is focused on leading or co-leading mid-market buyout transactions primarily in Europe, with some exposure to Asia, in companies with an enterprise value of typically up to around €1 billion.

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

The full economic alignment of our team, through carried interest, enables us to match resources to opportunities on a "best team for the job" basis based on sector, operational and deal execution experience.
Investment decisions are made on a partnership basis and draw upon 3i's wider knowledge, network and resources in order to benchmark and select the best opportunities.

Our investment criteria is to invest in mid-market companies where we can create substantial value. We pursue opportunities across Europe and Asia where we have genuine insight, with our main focus on five core sectors: Business Services; Consumer; General Industrial; Healthcare; and TMT (Technology, Media, Telecoms). For each target company we look for a strong management team to back, leveraging from the Group's Business Leaders Network, and the potential to create a step change in profits.

As at 31 March 2009, for the 59 investments made since 1 January 2001 that have been successfully exited, 56% of the growth in the value of the companies' equity was driven by earnings growth. Enhanced multiples on exit also contributed to this growth in equity value, the majority of which is due to the strategic repositioning of these companies with the balance due to market movements. The debt reduction over the life of these investments has been driven by our focus on working capital and cash efficiency to deliver further value.

We believe that 3i's approach to portfolio management is genuinely differentiated. The "Active partnership" component of this approach has been developed to build on conventional private equity value creation techniques. It systematically seeks to identify the key levers of management and functional performance improvement in each portfolio company through targeted needs analysis and through facilitated knowledge sharing across the portfolio. Delivery of "Active partnership" is tailored to the portfolio company and involves in-house functional experts working alongside each individual deal team. It also draws upon chosen preferred suppliers, each of whom is an expert in specific levers (eg working capital management; pricing; and lean operations).

In summary, 3i's Buyouts business model is about improving and enhancing the value of mid-market companies to deliver returns to our shareholders and to the investors in our managed funds. This also benefits wider stakeholder groups in these companies.

## Business activity

| Table 5: **Buyouts business activity investment and divestment** (£m) year to 31 March | **2009** | 2008 |
|---|---|---|
| Realisation proceeds | **494** | 858 |
| Investment | **(519)** | (788) |
| **Net (investment)/divestment** | **(25)** | 70 |

After five years in which Buyouts has realised more in aggregate than it has invested, generating total proceeds of £3,786 million and investing a total of £2,357 million from 1 April 2003 to 31 March 2008, investment and realisations were broadly balanced in the year to 31 March 2009, with total investment of £519 million (2008: £788 million) and realisations of £494 million (2008: £858 million).

Total investment of £519 million in the year included £309 million (2008: £604 million) invested in seven (2008: 11) new investments in the year. Also included is a further investment of £64 million (2008: £40 million) in the debt warehouse vehicle, with the balance being in further investments into the portfolio and capitalised interest.

Realisation proceeds of £494 million (2008: £858 million) in the year included the full realisation of six investments (2008: 19), the largest of which was Giochi Preziosi, which delivered £166 million of proceeds in May 2008, with this investment being valued on an uplift to sale basis at 31 March 2008. The largest realised profit over opening book value was from the exit of ABX in October 2008 (realisation proceeds of £162 million), which represented a 5.0x money multiple for 3i and the investors in Eurofund IV over the life of the investment.

## Gross portfolio return

| Table 6: **Returns from Buyouts** (£m) year to 31 March | **2009** | 2008 |
|---|---|---|
| Realised profits over value on the disposal of investments | **255** | 370 |
| Unrealised (losses)/profits on the revaluation of investments | **(995)** | 245 |
| Portfolio income | **62** | 116 |
| **Gross portfolio return** | **(678)** | 731 |
| **Fees receivable from external funds** | **45** | 39 |

| Table 7: **Gross portfolio return by year – Buyouts** | |
|---|---|
| year to 31 March | % |
| 2005 | **20** |
| 2006 | **29** |
| 2007 | **54** |
| 2008 | **57** |
| 2009 | **(34)** |

A combination of significant falls in the multiples used to value the portfolio, some investments seeing a decline in earnings and the lower level of realisations, more than offset portfolio income and the good uplift percentage over opening value achieved on realisations in the period.

The result was a gross portfolio return of £(678) million (2008: £731 million), despite realised profits of £255 million (2008: £370 million). This represented a (34)% gross portfolio return on opening portfolio value of which (6)% relates to the debt warehouse vehicle, which was valued at £nil at 31 March 2009 on a mark-to-market basis. Portfolio income has fallen in the year to £62 million (2008: £116 million) as a result of increased provisions against income, which correspond to falls in the value of the portfolio companies where the valuation of the loan investment has been valued below cost at 31 March 2009.

**Portfolio health**

As anticipated, overall portfolio health has declined since 31 March 2008. At 31 March 2009, 67% of the portfolio based on cost was classified as "healthy" (2008: 90%). This reduction in the health of the portfolio reflects the harsher environment and is reflected in lower valuations.

**Portfolio demographics**

The Buyouts portfolio is well diversified by sector and geography, both by value and by number of portfolio companies. The total book value of the portfolio as at 31 March 2009 of £1,467 million compares with a cost of £1,852 million.

**Portfolio leverage**

Financing situations for the majority of the Buyouts portfolio are typically based on committed seven to nine year term loans, providing long-term secured financing. In addition to the acquisition debt in the underlying portfolio companies, committed working capital facilities are typically secured.

In the event of a covenant breach on a loan, there is the risk that the loan requires refinancing earlier if an agreement over the effect of the breach cannot be reached with the leverage providers. The impact of a breach can vary significantly – in some cases it can be waived or "cured," in others it can be remedied through changes in debt terms (eg a fee to the banks or a higher margin), and in some cases a wider scale capital restructuring is required. These negotiations can be complex and protracted, often involving multiple counter parties. 3i's in-house banking advisory team provides assistance and expertise in such situations. When considering whether to provide any further investment into these situations as part of the negotiation, 3i needs to carefully balance the ongoing portfolio company needs with the likelihood of achieving a positive return on any additional capital it invests.

As at 31 March 2009, we were in negotiations with debt providers on 16 investments as a result of covenant breaches up to this date. The value of these 16 investments at 31 March 2009 was £87 million, compared to a cost of £447 million. These fall into the range of breach scenarios highlighted – from minor breaches to wider restructuring. The investments with more serious breaches have been valued at £nil as at 31 March 2009.

Levels of leverage vary across the portfolio depending on the specific nature of business, the terms available in the debt market at the time of investment and the underlying business performance.

**Portfolio valuations**
Unrealised losses from the Buyouts portfolio in the 12 months to 31 March 2009 were £(995) million. This has been driven by falls in the multiples used to value portfolio companies and specific company under-performance compared to plan.

For unquoted portfolio companies which were over one year old at 31 March 2009, a small number saw a value uplift in the year totalling £48 million. This, however, was significantly offset by aggregate value falls of £(847) million on the majority of unquoted portfolio companies which were over one year old. Of these,15 unquoted had their valuations reduced to £nil this financial year, contributing £(476) million of the total unrealised value loss. The largest movement in the year was a £(137) million unrealised value loss on Global Garden Products, which was valued at £nil at 31 March 2009.

Of the seven new investments in the year, four were moved on to a full earnings basis at the 31 March 2009, with the remaining three valued on a market adjustment basis of valuation. The combined impact on the unrealised value loss in the year from these seven investments was £(73) million.

The impact of quoted valuation movements was relatively small at £(11) million. Within this, the value of the Group's holding in Telecity grew by £12 million in the year. The debt warehouse, on which further details are set out below, recorded an unrealised loss of £(112) million in the year on a first loss mark-to-market basis.

**Portfolio earnings**
For 2008 company year ends, aggregate earnings in the portfolio increased by 6% on 2007 portfolio company year end levels. We anticipate the earnings outlook for 2009 to be more challenging.

**Debt warehouse**
A debt management capability was established in October 2007 to capitalise on the opportunity to buy high-quality debt in non-3i investments at a discount. Investments are made through a €550 million debt warehouse facility to which 3i has committed €165 million on a first loss basis and which is separate from Eurofund V activities.

As at 31 March 2009, the debt warehouse had invested €445 million of which 3i's commitment was €133 million (£124 million). The credit quality of the portfolio is satisfactory and is focused on a diversified portfolio of large businesses in defensive sectors.

Secondary loan pricing fell dramatically in 2008, as at 31 December 2008, the average bid for European leverage loans was 59, having fallen 36 points over the year. The warehouse has been valued on a conservative first loss mark-to-market basis, leading to a book value for the 3i element of £nil at 31 March 2009 (2008: £32 million). The Lloyds bank facility, which supports the warehouse, and matures in November 2010, was in full compliance at 31 March 2009 with all its covenants, none of which is mark-to-market related.

**Long-term performance**

Table 8: **Long-term performance - Buyouts**
New investments made in the financial years ended 31 March

| Vintage year | Total investment £m | Return flow £m | Value remaining £m | **IRR to 31 March 2009** | IRR to 31 March 2008 |
|---|---|---|---|---|---|
| 2009 | 318 | 1 | 290 | **n/a** | n/a |
| 2008 | 631 | 19 | 358 | **(30)%** | n/a |
| 2007 | 551 | 289 | 426 | **25%** | 35% |
| 2006 | 495 | 765 | 234 | **46%** | 57% |
| 2005 | 362 | 952 | 52 | **62%** | 62% |
| 2004 | 307 | 523 | 66 | **34%** | 37% |
| 2003 | 275 | 664 | 29 | **49%** | 50% |
| 2002 | 186 | 441 | 0 | **61%** | 61% |

Analysis excludes investment in Debt warehouse.

Having achieved significant realisations in previous years, the performance of the 2002 to 2006 vintages remains strong, with each above 20% at 31 March 2009 and all having returned more than the original investment cost.

The sale of ABX in October 2008, delivering a return of 5.0x our original investment cost, has benefited the 2007 vintage performance in the year. However, the 2007 vintage performance overall at 31 March 2009 has been adversely impacted by falls in the valuations of some of the remaining companies in this vintage.

The 2008 vintage is currently immature. Its performance to date has been significantly impacted by 31 March 2009 valuations, leading to a negative IRR of (30)%.

**Fund management**

The Buyouts business line's track record with Limited Partner investors is based on long-term performance and the way it interacts with the investors in the funds it manages.
The latest Buyouts fund, Eurofund V, a €5 billion fund which was raised in November 2006, was 53% invested at 31 March 2009 in 23 companies. Eurofund IV, which had its final close in 2004, has continued to deliver strong performance with four exits in the year (ABX; Giochi Preziosi; Sampletest; and Monviso). At 31 March 2009, the fund had returned 1.76x of its gross commitments.

During the year to 31 March 2009, the Group invested £340 million (2008: £572 million) on behalf of external funds through its Buyouts business line. Fund fee income for the Buyouts business line has grown and totalled £45 million in the year to 31 March 2009.
As described above, Limited Partner investors have also been adversely affected by market conditions. To date, investors in 3i's Buyouts funds have continued to meet their

commitments. The slower rate of new investment also means that the raising of a new fund as a successor to Eurofund V is not now likely to be before 2010.

## Growth Capital

### The market

The Growth Capital business is focused on making minority equity investments in relatively un-leveraged businesses. Although affected by the challenging economic conditions which prevailed for most of the financial year to 31 March 2009, this market was not as badly affected as other parts of the industry. Comprehensive market data is difficult to access but we would estimate that investment activity slowed by approximately 30% in 2008 in our target markets of Asia, Europe and North America.

Pricing in this market has been a challenge and prices are only now starting to adjust to fully reflect public market movements. In addition, many owners of companies have felt that this has not been a good environment in which to embark upon major capital investment and international expansion projects, two key drivers of growth capital activity.

However, with debt markets constrained and traditional alternatives, such as raising money on public markets through an IPO, more difficult to achieve, the relative attractions of private equity for growth capital have increased.

3i’s European heritage, established track record in Asia and its long-established approach to minority investing provides differentiation both against the small number of other, typically US, global funds and smaller regional players who cannot offer the same level of international expertise, knowledge and networks.

These conditions also create the market opportunity described below to invest further in existing portfolio companies to consolidate markets through acquisition. Finance for acquisitions represented 44% of 3i’s Growth Capital investment in the year to 31 March 2009.

As economies begin to stabilise and then recover, we expect that there will be a substantial increase in demand for growth capital as companies who have constrained working capital during the downturn require further equity to fund increased activity and they and others return to growth agendas. This pick up in demand is currently not anticipated before the end of 2009.

### Opportunities for 3i

The opportunity for 3i’s Growth Capital business is driven by a number of factors. The first is the fundamental nature of the business and the opportunity to invest in high growth companies requiring capital to grow internationally, both organically and through acquisition. As referred to above, recent volatility both economically and in capital markets is likely to produce a preference for private equity capital over debt or raising capital through an IPO.

3i’s differentiation through its track record in this area and its “Active partnership” style of investing, combined with its market access, should enable it to take advantage of these opportunities.

### Priorities for 3i

In this environment, the main priority for 3i's Growth Capital business is to continue to maximise the value of our portfolio. As with other business lines, the use of our "Active partnership" approach and emphasis on operational performance to enable our portfolio companies not just to navigate the current difficult economic environment but also to take full advantage of organic and other opportunities in their sector will be central to achieving this.

Maintaining our privileged market access and reinforcing our positioning as a leading mid-market growth capital investor on a global basis are also important. This is critical if we are to capitalise on the significant market opportunity that we believe will emerge.

Finally, we will also continue to exit our older and smaller investments to free up capital for new opportunities.

**Business model**

The Growth Capital business operates across Europe, Asia and North America making, typically, minority equity investments of between €25 million and €150 million in established, profitable and typically international businesses. The Group's international presence, sector knowledge, networks and broader resources create the premium market access to companies that are generally "not for sale". Over the last two years, 53% of the new investments completed have been proprietary. These resources also provide the ability to benchmark investment opportunities globally and to work actively with high-growth companies to maximise value.

As can be seen from the portfolio demographics section below, the portfolio is well diversified by geography and by sector and has a low reliance on leverage to provide returns.

The Group's track record of making such investments for over 60 years has provided it with the experience, approach and techniques critical to success in minority investing. These are underpinned by only investing where we can align interests with entrepreneurs and management teams and the differentiated approach that 3i takes to adding value to its portfolio companies.

Another important aspect of our business model is the way in which we drive the growth in the value of our portfolio companies. The major driver of value creation in the Growth Capital business, for investments realised from the 2003 and more recent vintages, has been the underlying earnings growth of portfolio companies. Multiple enhancement on exit in Growth Capital portfolio companies is driven by three factors: improvement in the strategic positioning of portfolio companies; the fact that whilst investments are made on minority valuations, exits tend to occur when a company is sold or listed; and general market conditions.

## Performance

### Business activity

Table 9: **Growth Capital business activity – investment and divestment** (£m)
year to 31 March

| | **2009** | 2008 |
|---|---|---|
| Realisation proceeds | **461** | 503 |
| Investment | **(343)** | (990) |
| **Net divestment/(investment)** | **118** | (487) |

The combination of a highly selective approach to new investment and a good level of realisations has resulted in the Growth Capital business delivering net divestment of £118 million in the year to 31 March 2009 (2008: net investment £487 million).

Total investment during the year was £343 million (2008: £990 million) and realisations totalled £461 million (2008: £503 million).

Investment into new portfolio companies and further investment to support the growth of existing portfolio companies was broadly balanced, with £206 million invested in three new portfolio companies in the year to 31 March 2009 (2008: £938 million, 27).

A key element of 3i's Growth Capital model is to back companies growing by acquisition and so a further £99 million has also been committed to these three companies for acquisitions. An example being Labco, which has completed acquisitions in five different countries.

Whereas the level of deal flow was only 36% lower than the previous year, the level of new investment was reduced by 78%. This reflected the Group's caution in an environment where there was lower visibility on earnings and where the pricing expectations of management teams and shareholders were adjusting more slowly to the new market level.

There continues to be good levels of investment activity within our portfolio where robust businesses can take advantage of the current market and make strategic acquisitions. Over 40 acquisitions have been completed by our investee companies with our support this year.

Realisation proceeds of £461 million from 39 exits were marginally below the amount realised last year (2008: £503 million, 49 exits). We have focused on aggressively selling a large number of smaller, older investments in the year while continuing to opportunistically sell larger investments such as Little Sheep, Transport Alloin and CID Novem at good profits. The largest realisation was the sale of Nordic-based digital television operator, Boxer, which generated proceeds of £71 million this year.

**Gross portfolio return**

| Table 10: **Gross portfolio return by year – Growth Capital** | |
|---|---|
| year to 31 March | % |
| 2005 | 23 |
| 2006 | 26 |
| 2007 | 48 |
| 2008 | 21 |
| 2009 | (44) |

| Table 11: **Returns from Growth Capital** (£m)<br>year to 31 March | **2009** | 2008 |
|---|---|---|
| Realised (losses)/profits over value on the disposal of investments | **(66)** | 75 |
| Unrealised (losses)/profits on the revaluation of investments | **(1,029)** | 160 |
| Portfolio income | **60** | 67 |
| **Gross portfolio return** | **(1,035)** | 302 |
| **Fees receivable from external funds** | **1** | 2 |

The major contributor to a gross portfolio return of £(1,035) million (2008: £302 million), which represented a (43.7)% return over the opening portfolio value (2008: 20.7%), was the impact of an unrealised value movement of £(1,029) million (2008: £160 million).

A significant element of this unrealised loss has been driven by a fall in multiples used to value the portfolio. Underlying earnings within the portfolio remained healthy at 14% up year on year whilst the average valuation metric has fallen by c.30%, pre a typical marketability discount of 25%.

Realised losses of £(66) million (2008: £75 million realised profit) reflect the sale of a number of non-core smaller investments and more challenging M&A markets reducing company valuations during the year. However, these investments have been sold at a profit over cost, generating on average a 1.5x multiple over cost.

The most profitable realisation in the year was the sale of the Group's holding in Little Sheep, China's leading hot pot restaurant chain, which generated realised profits of £20 million and a 3.1x money multiple in March 2009.

Portfolio income of £60 million (2008: £67 million) was lower than the prior year. In 2008, portfolio income benefitted from exceptional dividends from a small number of investments.

**Portfolio health**

As at 31 March 2009, 81% (2008: 93%) of the portfolio was classified as healthy, based on cost. This reduction in the health of the portfolio reflects the harsher environment and is itself reflected in lower valuations.

**Portfolio demographics**

The Growth Capital portfolio is well diversified by sector and geography, both by value and by number of portfolio companies. The total book value of the portfolio as at 31 March 2009 of £1,574 million compares with an original cost of £2,042 million.

**Portfolio leverage**
In line with the business model, leverage is low across the portfolio. The average entry level of debt on new investments over the last five years has been 1.5 times EBITDA (Earnings Before Interest, Depreciation and Amortisation). The current debt across the portfolio is marginally higher at 2.0 times EBITDA. Debt is often raised alongside our equity investment to fund acquisition strategies.

Levels of leverage vary across the portfolio depending upon the specific nature of business, international profile and the phase of development.

**Portfolio valuations**
With no investments held at cost at 31 March 2009 and all valued with reference to an external benchmark (typically multiples), the adverse movement in market valuations was the major factor in the fall of the portfolio during the year.

The average multiple used to value investments which were valued on an earnings basis at 31 March 2009 was 5.3x, a 25% reduction from the 7.1x used at 31 March 2008.

For Growth Capital investments, we also apply a marketability discount of typically 25%, to reflect our minority position. This has a large impact at the first valuation date post acquisition and during the year to 31 March 2009, investments with a cost of £800 million had the discount applied, reducing valuations by £103 million.

Quoted investments were valued at £78 million (2008: £174 million), the largest of which was the Group's shareholding in Venture Production plc, which was valued at £64 million (excluding a convertible bond separately valued at £76 million) at 31 March 2009.

The largest privately held investment is the Group's investment in ACR Capital Holdings Pte Limited, which is valued on an industry metric basis, and was valued at £125 million.

**Portfolio earnings**
For 2008 company year ends, aggregate earnings in the portfolio were over £1.5 billion and increased by 14% on 2007 company year end levels. This growth was achieved through a mix of organic and acquisitive growth with c 25% delivered via acquisitions.

We expect 2009 to be a more challenging year for company earnings. Where we have forecast earnings that show a decline during 2009, this lower level of earnings has been used for 31 March 2009 valuation purposes.

## Long-term performance

Table 12: **Long-term performance – Growth Capital**
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 2009** | IRR to 31 March 2008 |
|---|---|---|---|---|---|
| 2009 | 206 | 1 | 193 | n/a | n/a |
| 2008 | 986 | 34 | 745 | (16)% | n/a |
| 2007 | 542 | 139 | 380 | (2)% | 17% |
| 2006 | 422 | 539 | 95 | 23% | 43% |
| 2005 | 182 | 245 | 55 | 27% | 31% |
| 2004 | 295 | 477 | 16 | 25% | 26% |
| 2003 | 223 | 380 | 54 | 25% | 25% |
| 2002 | 498 | 713 | 11 | 12% | 12% |

The performance of the more mature vintages (2002 to 2005) have remained stable due to the significant realisations achieved in previous years. Similarly, 2006 remains above 20%, having already returned more than the original investment cost. The 2007 vintage has had two early profitable exits during the year with Little Sheep exited at 3.1x our original cost for a 62% IRR and Electrawinds, a Belgium-based energy business, exited for 1.6x our original cost for a 47% IRR. Notwithstanding these early gains, the impact of lower valuations, driven by reductions in multiples, has reduced the IRR to a marginally negative return.

The 2008 vintage is immature and has been hardest hit by reduced valuations, leading to a negative IRR of (16)%.

## Infrastructure

### Introduction

The development of 3i's Infrastructure business line has continued in the year to 31 March 2009. This business line now accounts for 9% (2008: 8%) of the Group's portfolio value and 21% (2008: 12%) of assets under management, reflecting the higher proportion of funds managed or advised than other business lines.

3i Infrastructure plc and the 3i India Infrastructure Fund both developed further in the year. The 3i India Infrastructure Fund is 41% invested and 3i Infrastructure plc, having raised expansion equity in July 2008, is well positioned with cash balances of £387 million at 31 March 2009. Following the successful placings of a proportion of the Group's holdings in 3i Infrastructure plc and Osprey LP (the vehicle which holds the Group's interest in Anglian Water Group Limited "AWG"), the value of the Group's balance sheet investment in this business line as at 31 March had reduced to £371 million (2008: £501 million).

The focus on investing in a broad range of international infrastructure assets, principally in transportation, utilities and social infrastructure in Europe, India and North America, has been maintained.

**The market**
Infrastructure assets are typically more resilient than other asset classes through the economic cycle. However, recent macroeconomic volatility has had an impact on infrastructure, and in particular changes in inflation as revenues are typically strongly linked to this. Financing infrastructure transactions has also become more challenging, despite the relative attractiveness of the asset class. Infrastructure's lower risk profile and longer term contract nature has also meant that, in a generally tight debt market, infrastructure lending is still available albeit on less attractive terms.

Nevertheless, the infrastructure market remains fundamentally attractive. Adjustments in asset pricing to reflect greater market uncertainty continues, but mature asset sales by distressed vendors and those de-leveraging balance sheets create interesting deal opportunities. The combination of demand for replacement infrastructure in Europe and North America and for new infrastructure in India provides inherent market growth in the key markets in which 3i operates.

The competitive landscape has been improved due to issues at several other major investors in this market. Given the market opportunity and 3i's growing differentiation, infrastructure remains an attractive market for 3i.

Table 13: **Assets under management** (£m)
as at 31 March

| | **2009** | 2008 |
|---|---|---|
| Own balance sheet | **371** | 501 |
| Managed funds | **599** | 348 |
| Advised funds | **688** | 364 |
| | **1,658** | 1,213 |

The Group uses the latest published net asset value rather than the market price to measure external assets under management.

**Business model**
The business model for 3i's infrastructure business line is to invest in a broad range of international infrastructure assets with a geographic focus on the UK, continental Europe and Asia and a sectoral focus on transportation, utilities and social infrastructure. Investments are made by 3i Infrastructure plc and the 3i India Infrastructure Fund as well as from 3i's own balance sheet.

**3i Infrastructure plc**
3i holds a 33.3% investment in 3i Infrastructure plc, which was listed on the London Stock Exchange in March 2007 and is a FTSE250 company. 3i Group plc, through 3i Investments plc, a wholly-owned subsidiary, acts as an investment adviser to 3i Infrastructure plc 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 plc is Jersey based, with an independent board and targets a 12% net return through NAV growth, of which 5% is returned to shareholders through dividends. 3i Infrastructure plc raised £703 million at IPO in March 2007 and, in July 2008, raised a further £115 million of equity to fund new investment through a Placing and Open offer.

The Group reduced its holding in 3i Infrastructure plc from 46.2% to 33.3% during the year. This was achieved through both a Placing and Open offer in July 2008 – where, in order to provide access to new investors, 3i deliberately took up only £25 million of its full pro-rata share in the placing, thus reducing the Group's holding to 43% – and in February 2009 by selling 77 million shares for proceeds of £61 million, reducing its shareholding to 33.3%.

3i Infrastructure plc has its own dedicated investor relations website, www.3i-infrastructure.com.

**3i India Infrastructure Fund**

3i manages a $1.2 billion unquoted infrastructure fund, focusing in India in the ports, airports, roads and power sectors of Infrastructure. The fund closed in March 2008 with a target investment horizon of two to four years and had invested 41.1% of total commitments to 31 March 2009.

3i earns management fees and carry from all Limited Partners in the Fund with the exception of 3i Infrastructure plc, which also has a $250 million commitment to the fund.

**Other Infrastructure assets**

Over the year, 3i Group has continued to reduce its holdings in assets held directly on its own balance sheet where it does not have an advisory or management role. It has therefore sold part of its holding in AWG and several other smaller infrastructure assets for £56 million, resulting in a total portfolio held directly by 3i (excluding its holdings in 3i Infrastructure plc and the 3i India Infrastructure Fund) of £51 million.

**Gross portfolio return and fee income**

Table 14: **Returns from Infrastructure** (£m)
year to 31 March

| | **2009** | 2008 |
|---|---|---|
| Realised (losses)/ profits over value on the disposal of investments | **(20)** | 6 |
| Unrealised (losses)/profits on the revaluation of investments | **(62)** | 43 |
| Portfolio income | **32** | 18 |
| **Gross portfolio return** | **(50)** | 67 |
| **Fees receivable from external funds** | **26** | 18 |

The Infrastructure business line has generated a loss of £50 million for the year to 31 March 2009 (2008: £67 million profit). Higher portfolio income of £32 million (2008: £18 million) was more than offset by unrealised losses on the revaluation of investments of £62 million (2008: £43 million profit), principally as the valuation of the quoted holding in 3i Infrastructure plc fell. A profit of £5 million was achieved through the disposal of a number of assets held directly by the Group and a loss of £25 million arose from the sale of 3i Infrastructure plc shares.

Higher portfolio income was principally driven by dividends from 3i Infrastructure plc and dividends and loan interest income from AWG. Fee income continued to grow through advisory and performance fees from 3i Infrastructure plc and fund management fees from the 3i India Infrastructure Fund.

Despite outperforming the FTSE AllShare, which fell by 34% during the year, the 24% fall in share price of 3i Infrastructure plc led to a reduction in the value of the Group's holding in 3i Infrastructure plc of £74 million. This was the major contributor to the unrealised loss.

**Investment and realisations**

**Investment**
The Infrastructure business line's investment is mainly made through 3i Infrastructure plc and the 3i India Infrastructure Fund. Investment and drawdowns by the Group into those vehicles was £50 million in the year (2008: £38 million). This included the £25 million further investment in 3i Infrastructure plc in the Placing and Open Offer and £21 million drawn down commitments to the 3i India Infrastructure Fund as part of its investment in the Krishnapatnam Port Company Ltd and a further £3 million investment in AWG.

Total new investment completed by infrastructure funds managed and advised by the Group for the year was £246 million. The largest investment was the 3i Indian Infrastructure Fund's $161 million investment in the Krishnapatnam Port Company Limited, which is developing a natural deep sea port on the East coast of India.

**Realisations**
Realisation proceeds for the year to 31 March 2009 totalled £117 million (2008: £57 million).

In February 2009, 77 million shares in 3i Infrastructure plc were sold generating proceeds of £61 million. As a result of this sale, 3i Group now holds 33.3% of the issued share capital of 3i Infrastructure plc.

As part of the strategy to reduce own balance sheet holdings in infrastructure, other than those held through managed funds and advised companies, 3i has disposed of its interest in Tramtrack Croydon Limited, sold part of its stake in AWG and small residual interests in I2 and the Alma Mater Fund. These generated proceeds of £56 million at a realised profit of £5 million.

In addition, realisation proceeds received by 3i Infrastructure plc totalled £178 million.

**Non-core activities**

**Quoted Private Equity**
3i's Quoted Private Equity business line was established in 2007 to provide capital and value creation techniques to smaller public companies. Following the launch of 3i Quoted Private Equity plc ("3i QPEP" ) on the London Stock Exchange at a capitalisation of £400 million, investments were made through this company. The Group acted as investment adviser to 3i QPEP and had a 44.9% shareholding.

Since the onset of the dislocation to the credit markets in autumn 2007, 3i QPEP's share price traded at a significant discount to its net asset value and a cautious approach was taken to new investment. In its interim management statement on 13 February 2009, 3i QPEP reported that it had five portfolio companies and cash and deposits of £243 million.

On 23 February 2009, the Group announced a recommended scheme for the solvent winding up of 3i QPEP. Under this transaction, which was effective on 28 April 2009, 3i acquired the cash and the portfolio of 3i QPEP and in return gave the other 3i QPEP shareholders 50p in cash for every share they held plus 0.1706 of a new 3i share. In order to achieve this, 3i issued 37.6 million shares representing 8.9% of 3i's post-transaction issued share capital.

For the Group, this transaction had the benefit of producing a net cash inflow of £110 million on 28 April 2009. Management of the five portfolio companies, which had a combined value of £148 million at 28 April 2009, has been transferred to the Growth Capital business line. Four of the QPE team are still with 3i and have transferred to Growth Capital or elsewhere within the Group, with the remainder having left or in the process of leaving 3i. A reduction in operating expenses of £3 million per annum will offset the loss of fee income from 3i QPEP, which totalled £3 million in the year to 31 March 2009.

The return in the year was £26 million (2008: £(42) million), generated entirely through an increase in the 3i QPEP share price.

**SMI**

The SMI portfolio is a portfolio of older, smaller minority investments predominantly in the UK. In March 2004, 3i announced its intention 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 74 at 31 March 2009 and a total of £843 million has been realised.

The return for the year was £(53) million (2008: nil).

During the year, 18 investments were sold realising a total of £27 million (2008: £136 million). The strategy continues to be to realise these investments to maximise value either individually or in groups of assets in a way that is both responsible and sensitive to the needs of other shareholders. The unrealised value movement of the portfolio generated a loss of £(68) million and total income was £11 million.

**Venture Portfolio**

Table 15: **Returns from Venture Portfolio** (£m)
year to 31 March

| | **2009** | 2008 |
|---|---|---|
| Realised (losses)/profits over value on the disposal of investments | **(110)** | 65 |
| Unrealised (losses) on the revaluation of investments | **(312)** | (88) |
| Portfolio income | **6** | 6 |
| **Gross portfolio return** | **(416)** | (17) |
| **Fees receivable from external funds** | **-** | - |

Table 16: **Venture Portfolio business activity investment and divestment** (£m)
year to 31 March

| | **2009** | 2008 |
|---|---|---|
| Realisation proceeds | **209** | 170 |
| Investment | **(53)** | (156) |
| **Net divestment** | **156** | 14 |

Following the decision to stop investing in new early stage technology investments, the Venture Portfolio team was established on 1 April 2008 to maximise value from the Venture portfolio. This portfolio, which consisted of 180 investments in technology and healthcare companies, predominantly in Europe and North America, had a combined value of £738 million at 31 March 2008.

The focus of the Venture Portfolio team has been on realising the portfolio and on determining which companies should receive further funding. During the year, despite difficult conditions for realising such investments, the Venture Portfolio team was able to realise investments in 42 companies for a total consideration of £209 million (2008: £170 million). Of these realisations, £112 million was to financial buyers and £97 million was to trade buyers.

Further funding provided to the Venture Portfolio was £53 million (2008: £156 million). These investments were made on a selective basis and only where there was potential to enhance or protect future value.

The Venture Portfolio generated a gross portfolio return of £(416) million (2008: £(17) million) in the period as realised losses of £(110) million, together with an unrealised value movement of £(312) million, offset portfolio income of £6 million (2008: £6 million).

The remaining Venture portfolio of 123 assets, which was valued at £314 million at 31 March 2009, is made up of predominantly UK and European assets.

The strategy for the coming year is to continue to focus on achieving realisations from the Venture portfolio.

Further investments into the Venture portfolio will only be made where we are convinced that value can be protected or enhanced.

# Financial review

## Returns

Table 17: **Total return** (£m)
for the year to 31 March

| | **2009 £m** | 2008 £m |
|---|---|---|
| Realised profits over value on the disposal of investments | **63** | 523 |
| Unrealised (losses)/profits on the revaluation of investments | **(2,440)** | 291 |
| | **(2,377)** | 814 |
| Portfolio income | | |
| Dividends | **65** | 56 |
| Income from loans and receivables | **108** | 149 |
| Fees receivable | **(2)** | 22 |
| **Gross portfolio return** | **(2,206)** | 1,041 |
| Fees receivable from external funds | **75** | 60 |
| Carried interest | | |
| Carried interest receivable from external funds | **(3)** | 60 |
| Carried interest and performance fees payable | **56** | (152) |
| Operating expenses | **(250)** | (274) |
| **Net portfolio return** | **(2,328)** | 735 |
| Interest receivable | **34** | 89 |
| Interest payable | **(120)** | (105) |
| Movement in the fair value of derivatives | **(38)** | 158 |
| Exchange movements | **505** | (44) |
| Other finance income | **3** | 1 |
| **(Loss)/profit before tax** | **(1,944)** | 834 |
| Income taxes | **(4)** | (6) |
| **(Loss)/profit after tax** | **(1,948)** | 828 |
| Reserve movements (pensions, property and currency translation) | **(202)** | (36) |
| **Total recognised income ("Total return")** | **(2,150)** | 792 |

Tables 17 and 18 show that after five years (to 31 March 2008) in which the Group generated an average annual total return of 20.4% on opening shareholders' funds, the total return for the year of £(2,150) million (2008: £792 million), represented a (53.0)% return on opening shareholders' funds (2008: 18.6%).

As can be seen from table 17, which provides a breakdown of the key elements of total return, the £(2,440) million (2008: £291 million) unrealised value movement, which included £(354) million from non-core operations was the main driver of these substantial negative results.

The Buyouts and Growth Capital business lines were impacted by significant unrealised value movements of £(995) million (2008: £245 million) and £(1,029) million (2008: £160 million) respectively. The negative unrealised value movement for Infrastructure was considerably lower at £(62) million (2008: £43 million).

A notable feature of realised profits, which totalled £63 million (2008: £523 million) was the £255 million generated by Buyouts (2008: £370 million).

| Table 18: **Total return by year** | |
|---|---|
| year to 31 March | % |
| 2004 | 19.0 |
| 2005 | 15.2 |
| 2006 | 22.5 |
| 2007 | 26.8 |
| 2008 | 18.6 |
| 2009 | (53.0) |

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

**Realised profits**

Despite the sale of a number of older non-core assets at significant discounts to opening value, overall the Group achieved realised profits in the year of £63 million (2008: £523 million) and an average uplift to opening book value of 5% (2008: 43%).

Realised profits from Buyouts of £255 million (2008: £370 million) were offset by realised losses from the Venture Portfolio of £(110) million (2008: £65 million) and losses of £(66) million from Growth Capital (2008: £75 million).

Realisations from our core business line portfolios continued to be made at a significant uplift to cost. Realisations during the year were sold at a 1.3x multiple to cost, which increases to 1.7x if SMI and Venture Portfolio realisations are excluded.

Realised profits in the first six months of the year were £190 million. Realisations during these six months were made at an average uplift of 47% (2008: £337 million, 48%). Realised losses in the second half of £(127) million (2008: £186 million) were made at an uplift to 1 April 2008 value of (15)% (2008: 36%).

**Unrealised value movements**

There was a significant fall in the value of the Group's portfolio in the year to 31 March 2009, with an unrealised value movement of £(2,440) million (2008: unrealised profits £291 million).

This was due to a combination of factors including the steep falls in market indices and asset valuations in the period and the considerable economic challenges facing portfolio companies. The Group announced in its pre-close statement on 26 March 2009, that no assets would be held at cost at 31 March 2009 and that the non-core assets in the SMI and Venture portfolios would be valued on their expected disposal proceeds.

## Unrealised value movements

| Table 19: **Unrealised (losses)/profits on revaluation of investments** year to 31 March | **2009 £m** | 2008 £m |
|---|---|---|
| Earnings and multiples based valuations | | |
| Equity - Earnings multiples | **(412)** | (162) |
| - Earnings growth | **14** | 307 |
| Loans - Impairments (earnings basis) | **(620)** | (16) |
| First-time movements from cost | **(584)** | 154 |
| Other bases | | |
| Provisions | **(156)** | (150) |
| Uplift to imminent sale | **(140)** | 83 |
| Loans - Impairments (other basis) | **(228)** | (22) |
| Other movements on unquoted investments | **(188)** | 33 |
| Quoted portfolio | **(126)** | 64 |
| **Total** | **(2,440)** | 291 |

Table 19 shows the unrealised value movement for each category of valuation movement grouped by investments valued on an earnings multiple basis and those valued on other bases.

This section provides a summary of the movements for each individual category of value movement as well as details of the effect of not holding any investments made in the year on a cost basis of valuation, together with a review of the effect that the significant fall in multiples had across the relevant categories of value movement during the year.

**Impact of multiple movements**
EBITDA multiples and PE multiples were used to value 79% and 5% respectively, of the portfolio valued on an earnings basis as at 31 March 2009. The weighted average EBITDA multiple used to value the portfolio on an earnings basis was 5.9x as at 31 March 2009 and the weighted average PE multiple was 7.4x as at 31 March 2009.

These falls in multiples impacted the value of all of those investments valued on an earnings basis. This includes those equity investments valued on an earnings basis both at the beginning and end of the year (the "earnings multiple" category in table 19), those equity investments valued on a "first time movements from cost" basis and those investments where a reduction in enterprise value as a result of a multiple movement led to an impairment of the value of loans shown as "Impairments (earnings basis)" in table 19. The fall in multiples also impacted the quoted portfolio, which had a value movement in the year of £(126) million.

During periods of significant market correction there is often a lag effect of applying published market multiples. This is because current share prices are based on expected future earnings, whereas the published multiple is based on historic earnings. As a consequence of this lag, the impact of using the latest multiple on portfolio valuations may generate more significant reductions.

As can be seen from table 19 the value movement for companies valued on an earnings basis both at 31 March 2008 and at 31 March 2009 was £(412) million (2008: £(162) million).

The estimated overall effect due to reductions in the earnings multiples used to value the portfolio, including quoted movements and assets being sold imminently, was approximately £1,279 million or some 52% of the unrealised value movement on unquoted investments for the year.

**Earnings growth**
Overall portfolio earnings performance held up in a challenging environment during the year to 31 March 2009. An indication of this is that the overall movement in value of equity investments due to earnings growth for those companies valued on an earnings basis at the start and end of the year to 31 March 2009 was £14 million (2008: £307 million).

However, in the light of prevailing economic uncertainty, the Group believes that it has taken a prudent approach to the earnings data used to value companies on an earnings basis and has incorporated management accounts or forecast earnings in deriving earnings for valuation purposes where these indicated falls.

The weighting of accounts used to value the portfolio as at 31 March 2009 was audited 37% (2008: 58%), management accounts 42% (2008: 34%) and forecast 21% (2008: 8%). A higher proportion of management and forecast earnings used to value this element of the portfolio than in the previous year reflected a conservative outlook. It should also be noted that forecast earnings are only used when we consider the portfolio company has a proven track record of reliable forecasting.

Across all assets valued on an earnings basis, earnings have fallen by 12%, some 21% lower than the overall portfolio data using merely historical audited accounts, which showed an increase of 12%. This includes assets valued on an earnings basis for the first time.

**First time movements from cost**
The Group's valuation policy has historically been to value investments that are less than 12 months old at cost. In light of the significant level of economic volatility in the year, the Group announced in March that no assets would be held at cost at 31 March 2009. Consequently, the "First time movements from cost" category includes both investments that were held at cost at 31 March 2008 as well as investments made during the year.

First time movements from cost resulted in a reduction in the value of the portfolio of £584 million (2008: £154 million unrealised profit). Of this, £498 million relates to investments that were in the portfolio as at 31 March 2008. Of the 10 new investments made during the year, four have been moved to an earnings basis resulting in an unrealised loss of £73 million, of which £51 million is included in "First time movements from cost" and the remaining £22 million within "Impairments". We have received a full set of audited financial statements for these investments and consequently we have a reliable basis to apply both the latest earnings and multiples to these investments. We have not received audited financial statements for six of the new investments. However, in order to reflect the significant movements in quoted markets since acquisition the latest benchmark multiples have been applied to these investments resulting in an unrealised value movement of £(35) million, no marketability discount is applied to these investments.

**Impairments**
When the enterprise value of a portfolio company falls below the combined value of 3i's equity in the company and the cost of any loans provided, a shortfall is recognised against the value of the loan. This movement is classified as an impairment. Total loan impairments in the period were £848 million (2008: £38 million). Impairments to loans as a result of earnings based valuations were £(620) million.

The largest movement in Impairments for a basis other than earnings was the £112 million fall (2008: £12 million fall) in the value of the debt warehouse.

The largest impairments to loans are generally Buyouts investments from recent vintages: Global Garden Products £(131) million; Aviapartner Group £(66) million; VNU Business Information £(62) million, and Bestinvest £(47) million.

**Provisions**
A provision is recognised where we anticipate a 50% or greater chance that the company may fail within the next 12 months. Total provisions for the year are broadly in line with last year at £156 million (2008: £150 million). There are also several companies whose value is £nil where we do not consider the assets will fail. However, the impact of reduced enterprise value from either falling earnings or multiples has reduced the equity to nil and impaired all of our loan value.

**Uplift to imminent sale**
Investments valued on an imminent sales basis resulted in an unrealised value movement of £(140) million (2008: £83 million). Included within this category are investments where the proceeds have been received since the year end or where they are currently in a negotiated sales process.

**Quoted portfolio**
The value of the Group's quoted portfolio fell by £126 million (2008: £64 million unrealised profit) during the year to £611 million (2008: £889 million). The largest movements were the Group's investment in 3i Infrastructure plc £(74) million following a 26p fall in the share price of the company during the period and £(45) million fall in the value of Welspun Gujarat, an Indian manufacturer of line pipes for the oil and gas industry.

**Portfolio income**

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

| | **2009 £m** | 2008 £m |
|---|---|---|
| Dividends | **65** | 56 |
| Income from loans and receivables | **108** | 149 |
| Fees receivable | **(2)** | 22 |
| **Portfolio income** | **171** | 227 |
| Portfolio income/opening portfolio ("income yield") | **2.8%** | 5.2% |

Portfolio income of £171 million (2008: £227 million) includes dividend income of £65 million (2008: £56 million), interest receivable on loans of £108 million (2008: £149 million) and fees receivable net of abort costs of £(2) million (2008: £22 million). The fall in interest reflects not recognising accrued interest where provisions or impairments have been taken against loans during the year. The fall in net investment fees receivable is driven by the lower level of investment activity in the year.

## Gross portfolio return

Table 21: **Gross portfolio return by business line**

| year to 31 March | Gross portfolio return | | Return as a % of opening portfolio | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **£m** | £m | **%** | % |
| Buyouts | **(678)** | 731 | **(34)** | 57 |
| Growth Capital | **(1,035)** | 302 | **(44)** | 21 |
| Infrastructure | **(50)** | 67 | **(10)** | 14 |
| QPE | **26** | (42) | **18** | n/a |
| SMI | **(53)** | – | **(22)** | – |
| Venture Portfolio | **(416)** | (17) | **(56)** | (2) |
| **Gross portfolio return** | **(2,206)** | 1,041 | **(37)** | 24 |

Table 22: **Gross portfolio return by year**

| year to 31 March | % |
|---|---|
| 2005 | 16.7 |
| 2006 | 24.4 |
| 2007 | 34.0 |
| 2008 | 23.9 |
| 2009 | (36.7) |

Gross portfolio return comprises the income and capital return (both realised and unrealised value movement) generated from the portfolio and is expressed as a percentage of opening portfolio value. Gross portfolio return for the Group for the year to 31 March 2009 totalled £(2,206) million (2008: £1,041 million), a (37) % return over opening portfolio value (2008: 24%).

Our core business lines Buyouts, Growth Capital and Infrastructure have generated a combined gross portfolio return of £(1,763) million (2008: £1,100 million), which represented (36)% on opening portfolio value.

Buyouts generated a gross portfolio return of £(678) million (2008: £731 million). An unrealised value movement of £(995) million (2008: £245 million) was only partially offset by a good level of realised profits of £255 million (2008: £370 million), which were achieved at uplifts of 107% (2008: 76%). Portfolio income from the Buyouts portfolio of £62 million fell in the year (2008: £116 million) due to provisions taken against interest where the value of our loan is impaired.

Growth Capital generated a gross portfolio return of £(1,035) million (2008: £302 million). Unrealised losses in the year of £(1,029) million (2008: £160 million) and realised losses of £(66) million (2008: £75 million realised profits) were the key reasons for this. Portfolio income during the year was £60 million (2008: £67 million).

The Infrastructure gross portfolio return of £(50) million (2008: £67 million) includes unrealised losses of £(62) million (2008: £43 million), realised losses of £(20) million (2008: £6 million), offset by portfolio income which at £32 million (2008: £18 million) was nearly double the level of the previous year. The fall in the 3i Infrastructure plc share price and the sale of part of our holding in 3i Infrastructure plc generated an unrealised loss of £74 million and realised losses of £25 million respectively. Total portfolio income for the Infrastructure business line included dividends of £26 million (2008: £16 million).

As announced in our pre-close statement on 26 March 2009, our investments in SMI and the Venture Portfolio are valued based on expected sale proceeds. These portfolios are now classified as non-core activities, with the Venture Portfolio generating a gross portfolio return of £(416) million (2008: £(17) million) and SMI generating a gross portfolio return of £(53) million (2008: £nil).

Quoted Private Equity generated a gross portfolio return of £26 million (2008: £(42) million), which is entirely driven by the 15p increase in the share price in the year. Following the announcement of the scheme for the solvent winding up of 3i Quoted Private Equity plc on 23 February 2009, the share price increased to 93p at 31 March 2009. Following shareholder approval, this transaction subsequently completed on 28 April 2009.

**Fees receivable from external funds**
During the year, the Group received fund fee income from its managed Buyouts and Infrastructure funds and the Infrastructure and Quoted Private Equity companies. Total income from Buyouts and Infrastructure managed funds increased to £53 million (2008: £45 million). This increase is mainly a consequence of the Group benefiting from a full year of fees from the 3i India Infrastructure Fund, as well as the impact of a strengthening of the euro against sterling on the fees from our Buyouts funds.

Advisory fee income is received based on the gross investment value of the advised companies. Total advisory fee income of £11 million (2008: £9 million) comprises £8 million from 3i Infrastructure plc (2008: £8 million) and £3 million from 3i Quoted Private Equity plc (2008: £1 million).

A performance fee is also payable by 3i Infrastructure plc, which is based on the net asset value growth per share of the fund, subject to an 8% hurdle. During the year, a performance fee of £8 million (2008: £3 million) was recognised. This includes an element of under accrual of prior year fees, due to 3i Infrastructure plc announcing its results after 3i Group plc last year.

**Net carried interest and performance fees payable**

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

Whereas 3i only receives carried interest from the external funds it manages (eg Eurofund V), it pays carried interest to investment executives who manage investments from both balance sheet and external funds.

Although the Group only receives and pays carried interest as a result of cash-to-cash returns subject to performance conditions, it must account for carried interest payable based on both the realised profits generated and unrealised value movements.

As a consequence of the unrealised losses generated in the year, unrealised carried interest payable recognised in prior periods has been reversed and a £56 million gain recognised (2008: £152 million expense).

The fall in the value of the Buyouts portfolio has resulted in carried interest receivable, recognised in previous periods relating to unrealised movements, being reversed and consequently, total carried interest receivable was £(3) million (2008: £60 million).

The performance fee payable and a share of the advisory fees generated by 3i Infrastructure plc are payable to 3i investment staff. During the year, £6 million was payable as carried interest or performance fees payable (2008: £6 million). The performance of the underlying investments in 3i India Infrastructure Fund has been good and carried interest payable of £6 million has been recognised (2008: £nil).

**Operating expenses**

Table 23: **Cost efficiency**
year to 31 March

| | **2009** **£m** | 2008 £m |
|---|---|---|
| Operating expenses | **250** | 274 |
| Fees receivable from external funds* | **(67)** | (57) |
| Net operating expenses | **183** | 217 |
| Net operating expenses/opening portfolio ("cost efficiency") | **3.0%** | 5.0% |

*Net of £8 million performance fee from 3i Infrastructure plc in 2009 (2008: £3m).

Improving cost efficiency has been a major focus through the year and, through a range of actions and lower performance pay in the year, the Group has reduced total operating expenses by 9% to £250 million (2008: £274 million), including £45 million of restructuring and redundancy costs.

The Group's cost efficiency metric is defined as operating costs net of management and advisory fee income as a percentage of opening portfolio. Higher fee income, lower operating expenses and a higher opening portfolio value resulted in an improvement in this measure to 3.0% (2008: 5.0%).

During the next financial year, the Group will conduct a strategic review of the balance of investment made between own balance sheet and external funds. As a consequence, the appropriateness of the current cost efficiency metric definition will be reviewed.

Total headcount at 31 March 2009 was reduced to 607 (2008: 739) after remaining fairly stable, between 700 and 800, for the financial years from 2004 to 2008. During the period, the mix of resourcing changed considerably as the Group increased its international reach, most notably in Asia and North America, established the Infrastructure and QPE business lines and reduced staffing in the SMI and Venture Portfolio teams as these portfolios reduced in size. A further 37 headcount reduction took place in April 2009.

The combination of further reductions in the size of the SMI and Venture portfolios, the closure of the QPE business line and a major downsizing exercise in December 2008 following a detailed review of the Group's operational requirements, has resulted in employee numbers falling to 607 (2008: 739) at 31 March 2009. In addition to the reduction in headcount, a number of smaller offices in continental Europe, Asia and North America were closed. In addition, a review of expenditure by the business lines and the professional service teams was conducted. As a consequence of these factors, the direct costs of our business lines, professional service teams and office network is planned to fall by circa 9% in the year to 31 March 2010.

All employees are eligible for a discretionary cash bonus, which is subject to Group performance. In the year to 31 March 2008, these bonuses totalled £56 million. In view of the performance for the year to 31 March 2009, no bonuses will be paid to Management Committee other than in fulfilment of contractual commitments. In total, £8.6 million, which includes contractual commitments, has been provided for, the majority of which will be delivered as deferred bonus shares.

## Net interest payable

Net interest payable in the year has increased from £(16) million to £(86) million. A reduction in the level of cash balances in the year, combined with a fall in interest rates during the year, resulted in interest receivable falling to £34 million (2008: £89 million). Interest payable increased to £120 million (2008: £105 million) and is mainly a result of a higher rate of interest payable on the £430 million convertible bond issued in the year than was payable on the previous €550 million convertible bond.

## Movement in the fair value of derivatives

In previous years, the €550 million convertible bond raised in August 2003, resulted in the Group's total return being impacted by movements in the value of the equity element of the convertible bond. In July 2008, this convertible bond was repaid and replaced with a £430 million convertible bond. 3i also entered into agreements called "call spread overlays", which reduce the volatility associated with the derivative element of this bond. Consequently, fair value movements on derivatives is significantly lower than last year at £(38) million (2008: £158 million) and relate almost entirely to movements in the fair value of our interest rate swaps.

## Exchange movements

Following the decision in October to close its foreign exchange swap portfolio, 3i's total return now has exposure to foreign exchange movements affecting the value of its portfolio. Some 54% of the Group's debt is sterling denominated and therefore foreign exchange movements also affect the value of the Group's net debt. During the year, there was a net foreign exchange gain of £315 million (2008: £38 million loss). This is comprised of a £765 million increase in portfolio values offset by £188 million on translation of debt and a further £262 million relating to movements from foreign exchange swaps and other balance sheet items.

## Pension

In September 2008, the tri-annual valuation to June 2007 of the UK-defined benefit pension scheme was completed. This resulted in a £86 million deficit, which the Group has agreed to fund over five years.

The pension deficit recognised in the Group's balance sheet is accounted for under IAS 19 and reduced from £38 million to £18 million in the year, principally due to the Group providing additional contributions of £20 million.

The Group recognised an £8 million actuarial loss in the year (2008: £41 million), principally due to changes in the value of the plan's assets and liabilities.

## Portfolio and assets under management

Table 24: **Assets under management**
as at 31 March

| | **2009** | 2008 |
|---|---|---|
| | **£m** | £m |
| 3i direct portfolio | **4,050** | 6,016 |
| Managed funds | **3,079** | 3,143 |
| Advised quoted funds | **890** | 633 |
| Total | **8,019** | 9,792 |

Assets under management comprise 3i's directly held portfolio, managed unlisted funds and advised listed funds. The value of external funds under management is based on the value on which income is earned by the Group, which normally includes un-invested commitments and the accounting valuation of invested assets. Where 3i has a direct investment in the funds that it manages or advises, this is held at fair value within the direct portfolio.

An 18% fall in assets under management during the year to £8,019 million at 31 March 2009 (2008: £9,792 million) was principally due to the 33% fall in the value of the Group's direct portfolio to £4,050 million (2008: £6,016 million).

The value of external funds managed and advised by the Group increased by 5% (2008: 37% growth) during the year. This was due to the strong performance of underlying investments in the 3i India Infrastructure Fund, growth in 3i Infrastructure plc, as well as the impact of foreign exchange movements on un-invested commitments within the euro-denominated Eurofund V.

Table 28 provides a schedule of managed and advised funds together with information about the fund size, level of 3i commitment and proportion invested at 31 March 2009.

The Buyouts and Infrastructure business lines are funded with a mix of balance sheet funding and external funds whereas Growth Capital is funded almost entirely from the Group's balance sheet.

At 78% (2008: 59%), Infrastructure has the highest proportion of external funds. The proportion of external funds for Buyouts has risen to 61% (2008: 56%) mainly as a consequence of the fall in the value of the direct portfolio in the year.

## Portfolio assets directly owned by the Group

Table 25: **Portfolio value movement by business line and vintage year**

| | Opening Portfolio value 1 April 2008 £m | New investment £m | Divestment £m | Value movement £m | Other £m | Closing Portfolio value 31 March 2009 £m |
|---|---|---|---|---|---|---|
| Core business lines | | | | | | |
| Buyouts | 2,025 | 519 | (239) | (995) | 157 | 1,467 |
| Growth Capital | 2,366 | 343 | (527) | (1,029) | 421 | 1,574 |
| Infrastructure | 501 | 50 | (137) | (62) | 19 | 371 |
| | 4,892 | 912 | (903) | (2,086) | 597 | 3,412 |
| Non-core business lines | | | | | | |
| QPE | 142 | 3 | - | 26 | - | 171 |
| SMI | 244 | - | (23) | (68) | - | 153 |
| Venture Portfolio | 738 | 53 | (319) | (312) | 154 | 314 |
| | 1,124 | 56 | (342) | (354) | 154 | 638 |
| Total | 6,016 | 968 | (1,245) | (2,440) | 751 | 4,050 |

Table 25 also shows that the strategic actions taken by the Group, including the decision to grow the Infrastructure business line and to accelerate the disposal of non-core assets, combined with the significant reduction in the value of the direct portfolio, has changed the mix by business line. At 31 March, Buyouts represented 36% (2008: 34%) of the direct portfolio value, Growth Capital 39% (2008: 34%) and Infrastructure 9% (2008: 8%). Excluding non-core activities, these proportions rise to 43%, 46% and 11% of the remaining portfolio value.

The total number of investments in the portfolio, excluding 199 QPE, SMI and Venture investments, was 177 as at 31 March 2009 (2008: 213 and 274 QPE, SMI and Venture Portfolio investments).

Table 26: **3i direct portfolio value by geography**
as at 31 March

| | **2009 £m** | 2008 £m |
|---|---|---|
| Continental Europe | **1,618** | 2,573 |
| UK | **1,719** | 2,250 |
| Asia | **491** | 679 |
| North America | **209** | 497 |
| Rest of World | **13** | 17 |
| Total | **4,050** | 6,016 |

As can be seen from table 26, the geographic mix of the portfolio has also changed with 40% of the direct portfolio value at 31 March 2009 in continental Europe (2008: 43%), 43% (2008: 37%) in the UK and 12% (2008: 11%) in Asia. The sale of almost 86% of the opening US Venture Portfolio in the year and value reductions on a small number of significant Growth Capital investments in the US resulted in a 58% lower US portfolio value than the previous year.

In Asia, significantly higher realisations at £127 million (2008: £25 million) combined with a low level of new investment at £46 million (2008: £171 million) meant that, although the proportion of portfolio value increased to 12%, the absolute value fell by 28%.

Table 27: **3i direct portfolio value by sector**
as at 31 March

| | **2009** **£m** | 2008 £m |
|---|---|---|
| Business Services | **749** | 819 |
| Consumer | **327** | 703 |
| Financial Services | **265** | 415 |
| General Industrial | **764** | 1,423 |
| Healthcare | **545** | 572 |
| Media | **214** | 455 |
| Oil, Gas and Power | **253** | 316 |
| Technology | **391** | 670 |
| | **3,508** | 5,373 |

Note: the total Group portfolio is £4,050 million, which includes 3i's investment in Infrastructure and Quoted Private Equity

Although all sectors have been impacted by the general fall in valuations, the most significant proportionate fall was within the general industrial sector, which fell in value by 46%. This fall follows the realisation of 17% of the opening portfolio value, which included the successful sale of a number of companies including ABX (Buyouts, realised profits £146 million), Freightliner (Buyouts, £75 million) and Transport Alloin (Growth, £11 million). The portfolio has also been impacted by unrealised value movements of £(629) million, which include Mold Masters (Growth, £(94) million) and STEN (Growth, £(89) million).

At 31 March 2009, the 3i debt warehouse had acquired €445 million in assets supported by an equity commitment from 3i Group of €133 million on a first loss basis. These assets, which are predominantly related to buyout businesses, are described in more detail as part of the Buyouts business line review.

In addition, the debt management team, alongside the Infrastructure team, manages a £92 million portfolio of junior debt in infrastructure businesses.

**Assets managed and advised by 3i**

Table 28: **Managed and advised funds**
as at 31 March 2009

| Fund | Business line | Final close date | Fund size | 3i commitment | Invested at March 2009 % | **Realised* March 2009 %** |
|---|---|---|---|---|---|---|
| 3i Eurofund III | Buyouts/Growth | July 1999 | €1,990m | €995m | 91 | **184** |
| 3i Eurofund IV | Buyouts | June 2004 | €3,067m | €1,941m | 91 | **176** |
| 3i Eurofund V | Buyouts | November 2006 | €5,000m | €2,780m | 53 | **7** |
| 3i Infrastructure plc | Infrastructure | March 2007 | £818m | £272m | 75 | **n/a** |
| 3i Quoted Private Equity plc | QPE | June 2007 | £400m | £180m | 45 | **n/a** |
| 3i India Infrastructure Fund | Infrastructure | March 2008 | $1,195m | $250m | 41 | **-** |

* Defined as proceeds as a percentage of original amount invested.

Table 28 provides a schedule of funds managed or advised by 3i. The source of these funds is well diversified internationally and by type of investor. Eurofund V has 60 Limited Partners and the 3i India Infrastructure Fund 14 Limited Partners, excluding 3i and 3i Infrastructure plc. On 23 February 2009 3i Group plc announced a recommended scheme for the solvent winding up of 3i QPEP. This transaction became effective after the year end, on 28 April 2009.

## Capital structure, gearing and liquidity

**Capital structure**

Table 29: **Group balance sheet**
as at 31 March

| | **2009** | 2008 |
|---|---|---|
| Shareholders' funds | **£1,862m** | £4,057m |
| Net debt | **£1,912m** | £1,638m |
| Gearing | **103%** | 40% |
| Diluted net asset value per share | **£4.96** | £10.77 |

The effects of a reduction in the value of the portfolio and the £274 million increase in net debt principally due to currency translation has meant that, although net debt on a constant currency basis fell during the year, the Group's gearing increased significantly to 103%, which is outside the Group's targeted through-the-cycle range of 30%-40%.

During the year, 3i took a number of actions to reduce net debt which had risen to £2,033 million at the end of January 2009 and was £1,912 million as at 31 March 2009 (2008: £1,638 million). These actions included cash generated through the disposal of core portfolio and non-core assets (£366 million realised in the three months to 31 March 2009) and the sale of 9.5% of the issued share capital in 3i Infrastructure plc, which generated £61 million. The net benefit from the acquisition of the assets of 3i Quoted Private Equity plc was to deliver net cash of £110 million shortly after the year end.

**Gearing**
The combination of a fall in shareholders' funds to £1,862 million (2008: £4,057 million) following the total return of £(2,150) million and an increase in net debt to £1,912 million principally driven by foreign exchange movements has resulted in an increase in gearing in the year from 40% to 103%.

**Liquidity**
The Group's performance on realisations, combined with a highly selective approach to investment and its strategy to sell non-core assets, has resulted in total cash and deposits remaining broadly in line with last year at £734 million (2008: £796 million) and undrawn committed facilities of £286 million (2008: £286 million).

**Currency hedging**
Historically, the Group has maintained a policy to hedge 90% to 100% of the investment currency portfolio. This was achieved through cash settled currency swaps and core currency debt where available. The significant weakening of sterling meant that the cash volatility associated with this policy of using short-term foreign exchange swaps was no longer appropriate. As a consequence, the Group closed out the majority of its foreign exchange swap portfolio. This programme is now complete at a cash settlement of £174 million. As a result, 16% of the North American and Asian portfolios and 67% of the

European and Nordic portfolios are now hedged. The Board intends to review the introduction of a more comprehensive hedging strategy as a priority.

**Diluted NAV**
The total return of £(2,150) million resulted in diluted net asset value per share falling by £5.81 in the year to £4.96 as at 31 March 2009 (2008: £10.77).

**Rights issue**
In May 2009, the Board announced an underwritten rights issue to raise gross proceeds of £732 million, which the Board believes will strengthen 3i's financial position and deliver a number of additional benefits for the business. Pro forma gearing at 31 March 2009, reflecting both the rights issue and the 3i QPE transaction in April 2009, would be 42%.

# Risk

## Introduction

This section sets out the main elements of 3i's risk management framework together with a description of the main inherent risk factors facing the Group, and a review of the evolution and management of the Group's key risks during the year. Further details on the management of key risks, and related results and outcomes, can be found in the relevant sections of the annual report shown under "Further information" in the Risk section.

## Risk management framework

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

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

By reporting regularly to Audit and Compliance Committee, the Group's Compliance and Internal Audit functions provide support to the Board in maintaining effective risk management across the Group. This risk management framework and the main responsibilities of each committee are shown below.

The key components of 3i's risk management framework, which are regularly reviewed, remain fundamentally the same as last year, with some modifications to address the increased risks related to the deterioration in market and economic conditions; most notably the introduction of weekly meetings of a sub-committee of the Group Risk Management Committee chaired by the Chief Executive. This is considered in more detail in the Review of risks.

## Risk governance

Group Risk Management Committee

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

Investment Committee

- Takes or recommends investment decisions on individual opportunities

Operational Risk Committee

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

Conflicts Committee

Decides issues on conflicts arising in investment process and other areas

Health and Safety Committee

Reviews Health and Safety arrangements and policy.

Monitors implementation and performance

**Corporate Responsibility Committee**

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

**Regulatory Risk Forum**

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

### Financial Risk Committee

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

Risk factors

## Risk factors

### Risk type: External

Risks arising from current, proposed and anticipated political, legal, regulatory, economic and competitor changes.

**Key developments**

- Adverse economic and market conditions impacting (i) liquidity and net debt; (ii) investment levels; (iii) portfolio performance and (iv) valuations
- Regulatory developments

**Further information**

Overview

- Chairman’s statement, 3i at a glance, Our priorities and strategy, Chief Executive’s statement

Business review

- Market conditions, 3i’s approach

**Risk mitigation**

- Regular Group Risk Management Committee and Board reviews
- Close monitoring of regulatory and fiscal developments in main markets
- Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets

### Risk type: Strategic

Risks arising from the analysis, design and implementation of the Group’s business model, and key decisions on the investment levels and capital allocations

**Key developments**

- Organisational changes, including changes to senior management
- Acceleration or initiation of corporate projects in context of current market

**Further information**

Overview

- Chairman's statement, 3i at a glance, Our priorities and strategy, Chief Executive's statement

Business review

- Market conditions, 3i's approach

**Risk mitigation**

- Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions
- Regular monitoring by Group Risk Management Committee
- Monitoring of key projects

## Risk type: Investment

Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolio

**Key developments**

- Significantly reduced investment and realisation levels
- Impact of current economic environment on portfolio management processes; earnings; leverage; valuation multiples

**Further information**

Overview

- 3i at a glance

Business review

- Market conditions, 3i's approach; Investment activity, Business lines

Financial review

- Returns, Portfolio and assets under management

Financial statements

Portfolio and additional information

**Risk mitigation**

- Investment Committee approval of all significant investments
- Regular asset reviews, including risk assessment
- Representation by a 3i investment executive on the boards of investee companies
- Portfolio is subject to periodic reviews at both the business line and Group levels to monitor exposure to any one sector or geography

## Risk type: Treasury and funding

Risks arising from

(i) uncertainty in market prices and rates,
(ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or
(iii) inappropriate capital structure

**Key developments**

- Impact of market and economic turbulence on Group's financial position, in particular liquidity and net debt, and currency management

**Further information**

Overview
- Chief Executive's statement

Business review
- market conditions

Financial review
- capital structure, gearing and liquidity

Financial statements

**Risk mitigation**
- Credit risk exposure is managed on an asset-specific basis by individual investment managers
- Regular Board reviews of the Group's financial resources
- Regular reviews of liquidity, gearing, net debt and large currency exposures

### Risk type: Operational

Risk arising from inadequate or failed processes, people and systems or from external factors affecting these

**Key developments**
- Execution of organisational changes and other corporate initiatives

**Further information**

Business review

Corporate responsibility report

Governance report

**Risk mitigation**
- Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks
- Framework of core values, global policies, a code of business conduct and delegated authorities are in place
- Independent internal audit function carries out periodic reviews

The above sets out the definitions of each key risk type; the key developments for each category during the year; the relevant sections of the annual report where further information can be found on the key developments; and a summary of the main risk mitigation processes.

The principal components of each risk type are explained in more detail in the Risk section, followed by a commentary on the main changes to the Group's risk profile during the year.

## External risks

### Macroeconomic risks

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

To mitigate this, 3i aims to invest over time in a range of sectors, with different economic cycles, across its different business lines and geographical markets.

Comments on current market conditions and 3i's approach are set out in the Business review.

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

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

The European Commission has recently released its proposal for a Directive on Alternative Investment Fund Managers (which covers hedge funds and private equity) as well as recommendations on executive remuneration and remuneration in the financial services sector. The first draft Directive contains requirements on authorisations, reporting and disclosure and minimum capital, and could come into force in 2011 if agreement on the proposals is reached by the end of this year. This is part of the Commission's response to the current financial crisis.

3i carries on business as an investment trust under section 842 of the Income and Corporation Taxes Act 1988. Continuation of this approval is subject to the Company directing its affairs in line with the requirements of the legislation. Changes in government policy and taxation legislation which could affect the results of the Group's operations or financial position are closely monitored.
3i complies with the "Guidelines for Disclosure and Transparency in Private Equity", known as the Walker guidelines, which is a voluntary code published in November 2007. The Group's Pillar 3 disclosure document can be found at www.3igroup.com.

**Strategic risks**

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

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

A commentary on the impact of current market conditions, and 3i's priorities and strategy in this context, is set out in the Overview section.

**Investment risks**

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

The ability of the Group to source and execute good quality investments in such markets is dependent upon a range of factors. The most important of these include: (i) the ability to attract and develop people with the requisite investment experience and cultural fit; (ii) organisation of teams whose structure is market-adapted and whose compensation is results-oriented; and (iii) effective application of collective knowledge and relationships to each investment opportunity.

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

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

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

**Investment concentration**
The Group invests across a range of economic sectors and geographies. Over-exposure to a particular sector or geography could increase the impact of adverse changes in macroeconomic or market conditions on the Group. An increase in the average size of investments over time could also increase the exposure of the Group to the performance of a small number of large investments, albeit in different sectors and/or geographies. The portfolio is subject to periodic reviews by the Financial Risk Committee and by individual business lines in order to monitor exposure to any one sector or geography and to monitor the exposure to larger investments. One of the conditions set out under section 842 of the Income and Corporation Taxes Act 1988 is that no single investment can exceed 15% of the

Group’s investment portfolio to maintain the Group’s tax status as an Investment Trust. This also mitigates the Group’s exposure to investment concentration risk.

**Investment valuations and exit opportunities**
The valuation of 3i’s portfolio and opportunities for realisations depend to a considerable extent on stock market conditions and the state of the wider mergers and acquisitions market. Changes in market or macroeconomic conditions impact the valuation of portfolio assets and the ability to exit those investments profitably within the desired timeframe.

Further information on investment activity and market conditions is set out in the Business review section. Investment performance is covered in the Financial review.

**Treasury and funding risks**

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

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

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

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

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

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

To manage this, a range of cash flow forecasts are produced and updated on a weekly basis for each business line and for the Group as a whole. These forecasts are reviewed weekly by the Group Risk Management Committee. The Board reviews the Group’s financial resources on a regular basis. This includes consideration of the currency hedging and maturity profile aspects, as well as liquidity, of the Group’s current and forecast financial position.

**Price risk**
The value of quoted investments is directly related to the relevant market and so subject to price risk. The value of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. The Group does not currently hedge the market risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

**Foreign exchange risk**
3i reports in sterling and pays dividends from its sterling profits. The Group seeks to reduce structural currency exposures by matching investment assets denominated in foreign currency with borrowings in the same currency. The Group also makes use of derivative financial instruments to effect foreign exchange risk management.

Assets denominated in currencies other than sterling have historically been hedged using a combination of currency borrowings and short-term derivative contracts. In recent years, the use of short-term contracts increased. During the year, the cost of rolling over these contracts increased to such an extent that the Board decided to rely solely on currency borrowings as the hedging strategy.

In the short term, 3i is therefore only partially hedged through the use of matching borrowings and will be exposed to potential foreign exchange fluctuations. In order to reduce this exposure, the Board will review the introduction of a more comprehensive hedging strategy as a priority.

**Interest rate risk**
3i has a mixture of fixed and floating-rate assets. The assets are funded with a combination of shareholders' funds and borrowings according to the risk characteristics of the assets. The Board seeks to minimise interest rate exposure by considering the average life profile of the various asset classes and adopting a portfolio approach to the interest rate hedging structure. Some derivative financial instruments are used to achieve this objective. These derivative positions are limited to "plain vanilla" instruments and do not include exotic options.

A commentary on the Group's capital structure, gearing, liquidity and currency hedging can be found in the Financial review. Further details on financial risk management are set out in note 2 to the Financial statements.

**Operational risks**

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

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

monitor their application. Staff engagement is also regularly evaluated and reported to the Board.

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

**Legal and regulatory**
In order to conform to necessary legal and regulatory requirements across multiple jurisdictions, the Group operates a complex legal and corporate structure. This requires appropriate internal processes and procedures to be developed and followed, supported by professional teams with appropriate skills, drawing upon external resources where appropriate.

## Review of risks

### Evolution of risks during the year
As already noted in the Chairman's and Chief Executive's statements, this has been a year of severe economic challenge. As a result, and in common with many other businesses, 3i's risk profile has shifted fundamentally due to the unprecedented combination of factors including the collapse of credit markets; high market volatility; complex and unforeseen risk interdependencies; and the onset of recession in the main markets in which the Group operates. The consequences of this combination have, at times, been difficult to predict, particularly in the latter half of the year. Examples include the very significant and rapid deterioration in market multiples, and thus the portfolio valuation, driving up the gearing ratio, and the weakening of sterling resulting in the decision to close out the Group's hedging swap portfolio. In response to this complexity, weekly special Group Risk Management Committee meetings, chaired by the Chief Executive, were set up in October 2008 at which developments in areas of higher risk are considered, together with the need for further action, with regular updates provided to the Board.

The main changes to the Group's risk profile were the increases in the estimated severity of several key risks identified at the start of the financial year; in particular the areas of liquidity and refinancing risk and the management of gearing and net debt.

## Risk management

The Group's risk management strategy has been adapted to address the changes in 3i's risk profile. A key assumption underpinning this strategy is that the current economic recession will be prolonged, affecting earnings and valuations across the portfolio, the availability of credit, consumer demand and levels of taxation. In this context, there has been a significantly increased focus on the risks inherent in the investment portfolio and Group's balance sheet management.

A formal review of the effectiveness of the current risk management framework was carried out in March 2009. The principal conclusion of this review was that although the basic framework remains sound, the terms of reference and membership of the main committees required updating where necessary to eliminate some overlap in coverage and to support further the effectiveness of the current structure.

These changes were agreed with a view to improving oversight and decision taking in relation to balance sheet management, including foreign exchange risk, and to investment portfolio risks. This includes the implementation of a new portfolio risk model designed to provide additional insight to both balance sheet management and portfolio strategies for investment and realisations.

Reviews of the performance of investment portfolio companies have increased in frequency and intensity, supported by improved availability and use of management information and detailed risk assessments, including for example close monitoring of refinancing risks and potential reputational risks. The new role of Managing Partner, Investments, has been created to ensure consistency and rigour in all investment decisions.

A further priority is to reduce the Group's current level of financial risk, specifically the levels of net debt and unhedged currency exposures, as outlined in the Chief Executive's statement.

The implications of the recently announced proposed European Directive, affecting the regulation of private equity, will need to be evaluated in the context of the Group's operations.

Business disruption from avian or swine flu or similar health pandemics has again moved up the risk agenda and could have a significant effect on 3i's investment portfolio, and business confidence in general, if it were to escalate. This may require aspects of current business continuity plans to be re-assessed.

Finally, corporate responsibility and business sustainability are of increasing importance, particularly when trust in the financial services sector has declined significantly.

**Income statement**

for the year to 31 March

| | Notes | 2009 £m | 2008 £m |
|---|---|---|---|
| Realised profits over value on the disposal of investments | | **63** | 523 |
| Unrealised (losses)/profits on the revaluation of investments | | **(2,440)** | 291 |
| | | **(2,377)** | 814 |
| Portfolio income | | | |
| Dividends | | **65** | 56 |
| Income from loans and receivables | | **108** | 149 |
| Fees receivable | | **(2)** | 22 |
| **Gross portfolio return** | 1 | **(2,206)** | 1,041 |
| Fees receivable from external funds | 1 | **75** | 60 |
| Carried interest | | | |
| Carried interest receivable from external funds | | **(3)** | 60 |
| Carried interest and performance fees payable | | **56** | (152) |
| Operating expenses | | **(250)** | (274) |
| **Net portfolio return** | | **(2,328)** | 735 |
| Interest receivable | | **34** | 89 |
| Interest payable | | **(120)** | (105) |
| Movements in the fair value of derivatives | | **(38)** | 158 |
| Exchange movements | | **505** | (44) |
| Other finance income | | **3** | 1 |
| **(Loss)/profit before tax** | | **(1,944)** | 834 |
| Income taxes | | **(4)** | (6) |
| **(Loss)/profit for the year** | | **(1,948)** | 828 |
| | | | |
| **Earnings per share** | | | |
| Basic (pence) | 3 | **(522.2)** | 207.9 |
| Diluted (pence) | 3 | **(522.2)** | 173.4 |

## Statement of recognised income and expense

for the year to 31 March

| | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| **(Loss)/profit for the year** | **(1,948)** | 828 | **(1,602)** | 882 |
| Exchange differences on translation of foreign operations | **(190)** | 6 | **-** | - |
| Revaluation of own-use property | **(4)** | (1) | **(3)** | (1) |
| Actuarial losses | **(8)** | (41) | **-** | - |
| **Total recognised income and expense for the year** | **(2,150)** | 792 | **(1,605)** | 881 |
| | | | | |
| Analysed in reserves as: | | | | |
| Revenue | **99** | 111 | **20** | 94 |
| Capital | **(2,059)** | 675 | **(1,625)** | 787 |
| Translation reserve | **(190)** | 6 | **-** | - |
| | **(2,150)** | 792 | **(1,605)** | 881 |

## Reconciliation of movements in equity

for the year to 31 March

| | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| Total equity at start of year | **4,057** | 4,249 | **3,930** | 4,020 |
| Equity settled call option | **5** | - | **5** | - |
| Total recognised income and expense for the year | **(2,150)** | 792 | **(1,605)** | 881 |
| Share-based payments | **3** | 8 | **3** | 8 |
| Ordinary dividends | **(64)** | (70) | **(64)** | (70) |
| Issue of B shares | **-** | (808) | **-** | (808) |
| Issues of ordinary shares | **9** | 19 | **9** | 19 |
| Buy-back of ordinary shares | **-** | (120) | **-** | (120) |
| Own shares | **2** | (13) | **-** | - |
| **Total equity at end of year** | **1,862** | 4,057 | **2,278** | 3,930 |

## Balance sheet

as at 31 March

| | Group 2009 £m | Group 2008 £m | Company 2009 £m | Company 2008 £m |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Investments | | | | |
| Quoted equity investments | **611** | 889 | **551** | 770 |
| Unquoted equity investments | **1,970** | 3,209 | **715** | 1,050 |
| Loans and receivables | **1,469** | 1,918 | **303** | 513 |
| **Investment portfolio** | **4,050** | 6,016 | 1,569 | 2,333 |
| Carried interest receivable | **44** | 75 | 44 | 75 |
| Interests in Group entities | **-** | - | 2,641 | 3,140 |
| Property, plant and equipment | **22** | 30 | 4 | 8 |
| **Total non-current assets** | **4,116** | 6,121 | 4,258 | 5,556 |
| **Current assets** | | | | |
| Other current assets | **70** | 49 | **176** | 182 |
| Derivative financial instruments | **10** | 24 | **10** | 24 |
| Deposits | **59** | 44 | **26** | 25 |
| Cash and cash equivalents | **675** | 752 | **545** | 611 |
| **Total current assets** | **814** | 869 | 757 | 842 |
| **Total assets** | **4,930** | 6,990 | 5,015 | 6,398 |
| | | | | |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Carried interest payable | **(51)** | (110) | **-** | – |
| Loans and borrowings | **(1,793)** | (1,509) | **(1,522)** | (1,224) |
| B shares | **(12)** | (21) | (12) | (21) |
| Convertible bonds | **(384)** | - | (384) | – |
| Subordinated liabilities | **(7)** | (14) | **-** | – |
| Retirement benefit deficit | **(18)** | (38) | **-** | – |
| Deferred income taxes | **-** | (2) | **-** | – |
| Provisions | **(18)** | (5) | **-** | – |
| **Total non-current liabilities** | **(2,283)** | (1,699) | **(1,918)** | (1,245) |
| **Current liabilities** | | | | |
| Trade and other payables | **(255)** | (166) | **(358)** | (308) |
| Carried interest payable | **(61)** | (140) | - | – |
| Loans and borrowings | **(349)** | (373) | **(349)** | (373) |
| Convertible bonds | **-** | (433) | **-** | (433) |
| Derivative financial instruments | **(112)** | (108) | **(112)** | (108) |
| Current income taxes | **(3)** | (5) | **-** | (1) |
| Provisions | **(5)** | (9) | **-** | – |
| **Total current liabilities** | **(785)** | (1,234) | **(819)** | (1,223) |
| **Total liabilities** | **(3,068)** | (2,933) | **(2,737)** | (2,468) |
| **Net assets** | **1,862** | 4,057 | **2,278** | 3,930 |

**Equity**

| | | | | |
|---|---|---|---|---|
| Issued capital | **284** | 283 | **284** | 283 |
| Share premium | **405** | 397 | **405** | 397 |
| Capital redemption reserve | **42** | 42 | **42** | 42 |
| Share-based payment reserve | **20** | 21 | **20** | 21 |
| Translation reserve | **(179)** | 11 | **-** | – |
| Capital reserve | **968** | 3,026 | **1,257** | 2,877 |
| Revenue reserve | **394** | 359 | **265** | 310 |
| Other reserves | **5** | - | **5** | – |
| Own shares | **(77)** | (82) | **-** | – |
| **Total equity** | **1,862** | 4,057 | **2,278** | 3,930 |

**Baroness Hogg** Chairman

8 May 2009

## Cash flow statement

for the year to 31 March

| | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| **Cash flow from operating activities** | | | | |
| Purchase of investments | **(827)** | (2,072) | **(777)** | (2,246) |
| Proceeds from investments | **1,308** | 1,824 | **1,072** | 1,733 |
| Interest received | **23** | 47 | **14** | 21 |
| Dividends received | **65** | 56 | **46** | 45 |
| Portfolio fees received | **-** | 22 | **-** | – |
| Fees received from external funds | **63** | 61 | **-** | – |
| Carried interest received | **43** | 67 | **43** | 67 |
| Carried interest paid | **(103)** | (154) | **-** | – |
| Operating expenses | **(316)** | (243) | **(144)** | (108) |
| Income taxes paid | **(5)** | (7) | **-** | 3 |
| **Net cash flow from operations** | **251** | (399) | **254** | (485) |
| | | | | |
| **Cash flow from financing activities** | | | | |
| Proceeds from issues of share capital | **9** | 19 | **9** | 19 |
| Buy-back of ordinary shares | **-** | (120) | **-** | (120) |
| Purchase of own shares | **-** | (21) | **-** | – |
| Disposal of own shares | **2** | 8 | **-** | – |
| Repurchase of B shares | **(9)** | (798) | **(9)** | (798) |
| Dividend paid | **(64)** | (70) | **(64)** | (70) |
| Interest received | **34** | 95 | **28** | 88 |
| Interest paid | **(80)** | (125) | **(79)** | (79) |
| Premium on call options acquired | **(78)** | - | **(78)** | - |
| Premium on call options sold | **29** | - | **29** | - |
| Proceeds from long-term borrowings | **686** | 591 | **686** | 592 |
| Repayment of long-term borrowings | **(585)** | (413) | **(566)** | (401) |
| Net cash flow from short-term borrowings | **(46)** | (23) | **(46)** | (23) |
| Net cash flow from derivatives | **(249)** | (110) | **(249)** | (110) |
| Net cash flow from deposits | **(15)** | 1,624 | **(1)** | 1,643 |
| **Net cash flow from financing activities** | **(366)** | 657 | **(340)** | 741 |
| | | | | |
| **Cash flow from investing activities** | | | | |
| Purchase of property, plant and equipment | **(4)** | (6) | **–** | – |
| Sales of property, plant and equipment | **3** | 1 | **–** | – |
| **Net cash flow from investing activities** | **(1)** | (5) | **–** | – |
| | | | | |
| **Change in cash and cash equivalents** | **(116)** | 253 | **(86)** | 256 |
| Cash and cash equivalents at start of year | **752** | 486 | **611** | 346 |
| Effect of exchange rate fluctuations | **39** | 13 | **20** | 9 |
| **Cash and cash equivalents at end of year** | **675** | 752 | **545** | 611 |

# Notes to the financial statements

1 Segmental analysis

| Year to 31 March 2009 | **Buyouts £m** | **Growth Capital £m** | **Infrastructure £m** | **Quoted Private Equity £m** | **Smaller Minority Investments £m** | **Venture Portfolio £m** | **Total £m** |
|---|---|---|---|---|---|---|---|
| **Gross portfolio return** | | | | | | | |
| Realised profits/(losses) over value on the disposal of investments | **255** | **(66)** | **(20)** | **-** | **4** | **(110)** | **63** |
| Unrealised (losses)/profits on the revaluation of investments | **(995)** | **(1,029)** | **(62)** | **26** | **(68)** | **(312)** | **(2,440)** |
| Portfolio income | **62** | **60** | **32** | **-** | **11** | **6** | **171** |
| | **(678)** | **(1,035)** | **(50)** | **26** | **(53)** | **(416)** | **(2,206)** |
| Fees receivable from external funds | **45** | **1** | **26** | **3** | **-** | **-** | **75** |
| **Net (investment)/divestment** | | | | | | | |
| Realisation proceeds | **494** | **461** | **117** | **-** | **27** | **209** | **1,308** |
| Investment | **(519)** | **(343)** | **(50)** | **(3)** | **-** | **(53)** | **(968)** |
| | **(25)** | **118** | **67** | **(3)** | **27** | **156** | **340** |
| **Balance sheet** | | | | | | | |
| Value of investment portfolio at end of year | **1,467** | **1,574** | **371** | **171** | **153** | **314** | **4,050** |

| Year to 31 March 2008 | Buyouts £m | Growth Capital £m | Infrastructure £m | Quoted Private Equity £m | Smaller Minority Investments £m | Venture Portfolio £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Gross portfolio return** | | | | | | | |
| Realised profits over value on the disposal of investments | 370 | 75 | 6 | - | 7 | 65 | 523 |
| Unrealised profits/(losses) 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 divestment/(investment)** | | | | | | | |
| 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 2009** | **UK £m** | **Continental Europe £m** | **Asia £m** | **North America £m** | **Rest of World £m** | **Total £m** |
|---|---|---|---|---|---|---|
| **Gross portfolio return** | **(494)** | **(972)** | **(285)** | **(439)** | **(16)** | **(2,206)** |
| Fees receivable from external funds | **47** | **19** | **9** | **-** | **-** | **75** |
| | | | | | | |
| **Net (investment)/divestment** | | | | | | |
| Realisation proceeds | **280** | **795** | **127** | **106** | - | **1,308** |
| Investment | **(316)** | **(539)** | **(46)** | **(63)** | **(4)** | **(968)** |
| | **(36)** | **256** | **81** | **43** | **(4)** | **340** |
| **Balance sheet** | | | | | | |
| Value of investment portfolio at end of year | **1,719** | **1,618** | **491** | **209** | **13** | **4,050** |

| Year to 31 March 2008 | UK £m | Continental Europe £m | Asia £m | North America £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 |

## Note 2 Financial risk management

**Introduction**

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Risk section. References in this note to the Risk section refer only to the contents of that section and not to other information referred to from the Risk section. This note provides further detail on financial risk management, cross-referring to the Risk section where applicable, and includes quantitative data on specific financial risks.

The Group is a highly selective investor and each investment is subject to a full risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section.

**Capital structure**

The capital structure of the Group consists of net debt, including cash held on deposit, and shareholders' equity. Capital is managed so as to maximise the return to shareholders while maintaining a capital base to allow 3i to operate effectively in the marketplace and sustain future development of the business.

| | Group 2009 £m | Group 2008 £m |
|---|---|---|
| Cash, deposits and derivative financial assets | **744** | 820 |
| Borrowings and derivative financial liabilities | **(2,656)** | (2,458) |
| Net debt | **(1,912)** | (1,638) |
| Total equity | **1,862** | 4,057 |
| Gearing (net debt/total equity) | **103%** | 40% |

Capital is managed on a consolidated basis and the gearing KPI is only applicable to the Group, not the Company.

**Capital constraints**

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory obligations. No significant constraints have been identified in the past and the Group has been able to distribute profits in a tax-efficient manner. The Company operates so as to qualify as a UK Investment Trust for tax purposes which necessitates its investment in subsidiaries remaining below 15% of the Company's investment portfolio.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm that is regulated by the FSA. The last submission to the FSA demonstrated a significant consolidated capital surplus in excess of the FSA's prudential rules. Since 1 January 2008 the Group's capital requirement has been amended following approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of 3i Investments plc. Although this has increased the regulated capital requirement, there remains a significant regulatory capital surplus. Following the Group's FSA ARROW visit in June 2008, 3i Group complies with the Individual Capital Guidance as agreed with the FSA and remains at a significant regulatory capital surplus. The Group's Pillar 3 disclosure document can be found on 3igroup.com.

**Financial risks**

**Concentration risk**

The Group's exposure to and mitigation of concentration risk is explained within "investment risks" and "liquidity risks" in the Risk section.

**Credit risk**

The Group is subject to credit risk on its loans, receivables, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with circa 79% of the Group's surplus cash held on demand in AAA Liquidity funds. The balance is held on short-term deposit with 3i's relationship banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due it is believed that the risk of default is small and that capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the Group's investment. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Loan impairments are made when the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment. In these cases a loan impairment is recorded equal to the valuation shortfall. Further information on how credit risk is managed is given in the Risk section. In accordance with IFRS7, the amounts shown as past due represent the total credit exposure, not the amount actually past due.

| | **Group 2009 not past due £m** | **Group 2009 up to 12 months past due £m** | **Group 2009 more than 12 months past due £m** | **Group 2009 Total £m** | **Company 2009 not past due £m** | **Company 2009 up to 12 months past due £m** | **Company 2009 more than 12 months past due £m** | **Company 2009 Total £m** |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables before provisions and impairments | **1,749** | **415** | **82** | **2,246** | **401** | **99** | **55** | **555** |
| Provisions on investments that have failed or expected to fail in the next 12 months | **(37)** | **(3)** | **(6)** | **(46)** | **(13)** | **(3)** | **(6)** | **(22)** |
| Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment* | **(421)** | **(280)** | **(30)** | **(731)** | **(158)** | **(48)** | **(24)** | **(230)** |
| Total | **1,291** | **132** | **46** | **1,469** | **230** | **48** | **25** | **303** |

| | Group 2008 not past due £m | Group 2008 up to 12 months past due £m | Group 2008 more than 12 months past due £m | Group 2008 Total £m | Company 2008 not past due £m | Company 2008 up to 12 months past due £m | Company 2008 more than 12 months past due £m | Company 2008 Total £m |
|---|---|---|---|---|---|---|---|---|
| Loans and receivables before provisions and impairments | 1,772 | 174 | 128 | 2,074 | 432 | 83 | 108 | 623 |
| Provisions on investments that have failed or expected to fail in the next 12 months | (44) | (1) | (40) | (85) | (6) | (1) | (37) | (44) |
| Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment | (4) | (31) | (36) | (71) | (9) | (27) | (30) | (66) |
| Total | 1,724 | 142 | 52 | 1,918 | 417 | 55 | 41 | 513 |

* Included within impairments not past due for the Group and Company is a £112 million value reduction for variable funding notes relating to the debt warehouse (2008: £12 million).

Movements on loan impairments and provisions are shown below:

| | Group Provisions £m | Group Impairments £m | Group Total £m | Company Provisions £m | Company Impairments £m | Company Total £m |
|---|---|---|---|---|---|---|
| Balance as at 31 March 2007 | (109) | (107) | (216) | (98) | (72) | (170) |
| Other movements | 65 | 74 | 139 | 60 | 30 | 90 |
| Charged to income statement in the year | (41) | (38) | (79) | (6) | (24) | (30) |
| Balance as at 31 March 2008 | (85) | (71) | (156) | (44) | (66) | (110) |
| Other movements | 85 | 175 | 260 | 33 | 77 | 110 |
| Charged to income statement in year | (46) | (835) | (881) | (11) | (241) | (252) |
| Balance as at 31 March 2009 | **(46)** | **(731)** | **(777)** | **(22)** | **(230)** | **(252)** |

**Liquidity risk**

Further information on how liquidity risk is managed is provided in the Risk section. The table below analyses the maturity of the Group's contractual liabilities.

**Financial liabilities (excluding currency swaps and forward foreign exchange contracts)**

| **As at 31 March 2009** | **Group due within 1 year £m** | **Group due between 1 and 2 years £m** | **Group due between 2 and 5 years £m** | **Group due greater than 5 years £m** | **Group Total £m** |
|---|---|---|---|---|---|
| **Gross commitments:** | | | | | |
| **Fixed loan notes** | **41** | **76** | **184** | **1,161** | **1,462** |
| **Variable loan notes** | **142** | **21** | **691** | **-** | **854** |
| **Convertible Bond 2011 £430m 3.625%** | **15** | **15** | **438** | **-** | **468** |
| **Committed multi-currency facility** | **7** | **349** | **-** | **-** | **356** |
| **Euro commercial paper** | **240** | **-** | **-** | **-** | **240** |
| **Interest rate swaps** | **10** | **14** | **11** | **8** | **43** |
| **Equity element of Convertible bond** | **-** | **-** | **2** | **-** | **2** |
| **Carried interest payable within one year** | **61** | **-** | **-** | **-** | **61** |
| **Total** | **516** | **475** | **1,326** | **1,169** | **3,486** |

| As at 31 March 2009 | Company due within 1 year £m | Company due between 1 and 2 years £m | Company due between 2 and 5 years £m | Company due greater than 5 years £m | Company Total £m |
|---|---|---|---|---|---|
| **Gross commitments:** | | | | | |
| **Fixed loan notes** | 41 | 76 | 184 | 1,161 | 1,462 |
| **Variable loan notes** | 142 | 21 | 691 | - | 854 |
| **Convertible Bond 2011 £430m 3.625%** | 15 | 15 | 438 | - | 468 |
| **Committed multi-currency facility** | 2 | 73 | - | - | 75 |
| **Euro commercial paper** | 240 | - | - | - | 240 |
| **Interest rate swaps** | 10 | 14 | 11 | 8 | 43 |
| **Equity element of Convertible bond** | - | - | 2 | - | 2 |
| **Carried interest payable within one year** | 61 | - | - | - | 61 |
| **Total** | 511 | 199 | 1,326 | 1,169 | 3,205 |

## Currency swaps and forward foreign exchange contracts

| As at 31 March 2009 | Group due within 1 year £m | Group due between 1 and 2 years £m | Group due between 2 and 5 years £m | Group due greater than 5 years £m | Group Total £m |
|---|---|---|---|---|---|
| Gross amount receivable from currency swaps | 258 | - | - | - | 258 |
| Gross amount receivable from forward foreign currency contracts | 220 | - | - | - | 220 |
| **Total amount receivable** | 478 | - | - | - | 478 |
| Gross amount payable from currency swaps | (305) | - | - | - | (305) |
| Gross amount payable from forward foreign currency contracts | (214) | - | - | - | (214) |
| **Total amount payable** | (519) | - | - | - | (519) |
| **Total net amount payable** | (41) | - | - | - | (41) |

| **As at 31 March 2009** | **Company due within 1 year £m** | **Company due between 1 and 2 years £m** | **Company due between 2 and 5 years £m** | **Company due greater than 5 years £m** | **Company Total £m** |
|---|---|---|---|---|---|
| Gross amount receivable from currency swaps | **258** | **-** | **-** | **-** | **258** |
| Gross amount receivable from forward foreign currency contracts | **220** | **-** | **-** | **-** | **220** |
| **Total amount receivable** | **478** | **-** | **-** | **-** | **478** |
| Gross amount payable from currency swaps | **(305)** | **-** | **-** | **-** | **(305)** |
| Gross amount payable from forward foreign currency contracts | **(214)** | **-** | **-** | **-** | **(214)** |
| **Total amount payable** | **(519)** | **-** | **-** | **-** | **(519)** |
| **Total net amount payable** | **(41)** | **-** | **-** | **-** | **(41)** |

**Financial liabilities (excluding currency swaps and forward foreign exchange contracts)**

| As at 31 March 2008 | Group due within 1 year £m | Group due between 1 and 2 years £m | Group due between 2 and 5 years £m | Group due greater than 5 years £m | Group Total £m |
|---|---|---|---|---|---|
| Gross commitments: | | | | | |
| Fixed loan notes | 39 | 39 | 165 | 1,198 | 1,441 |
| Variable loan notes | 131 | 114 | 437 | - | 682 |
| Convertible Bond 2008 €550m 1.375% | 437 | - | - | - | 437 |
| Committed multi-currency facility | 19 | 19 | 385 | - | 423 |
| Euro commercial paper | 267 | - | - | - | 267 |
| Interest rate swaps | (1) | 8 | 17 | 9 | 33 |
| Equity element of Convertible Bond | 6 | - | - | - | 6 |
| Carried interest payable within one year | 140 | - | - | - | 140 |
| Total | 1,038 | 180 | 1,004 | 1,207 | 3,429 |

| As at 31 March 2008 | Company due within 1 year £m | Company due between 1 and 2 years £m | Company due between 2 and 5 years £m | Company due greater than 5 years £m | Company Total £m |
|---|---|---|---|---|---|
| Gross commitments: | | | | | |
| Fixed loan notes | 39 | 39 | 165 | 1,198 | 1,441 |
| Variable loan notes | 131 | 114 | 437 | - | 682 |
| Convertible Bond 2008 €550m 1.375% | 437 | - | - | - | 437 |
| Committed multi-currency facility | 4 | 4 | 89 | - | 97 |
| Euro commercial paper | 267 | - | - | - | 267 |
| Interest rate swaps | (1) | 8 | 17 | 9 | 33 |
| Equity element of Convertible Bond | 6 | - | - | - | 6 |
| Carried interest payable within one year | - | - | - | - | - |
| Total | 883 | 165 | 708 | 1,207 | 2,963 |

Currency swaps and forward exchange contracts

| As at 31 March 2008 | Group due within 1 year £m | Group due between 1 and 2 years £m | Group due between 2 and 5 years £m | Group due greater than 5 years £m | Group Total £m |
|---|---|---|---|---|---|
| Gross amount receivable from currency swaps | 2,290 | - | - | - | 2,290 |
| Gross amount receivable from forward foreign currency contracts | 347 | - | - | - | 347 |
| Total amount receivable | 2,637 | - | - | - | 2,637 |
| Gross amount payable from currency swaps | (2,354) | - | - | - | (2,354) |
| Gross amount payable from forward foreign currency contracts | (346) | - | - | - | (346) |
| Total amount payable | (2,700) | - | - | - | (2,700) |
| Total net amount payable | (63) | - | - | - | (63) |

| As at 31 March 2008 | Company due within 1 year £m | Company due between 1 and 2 years £m | Company due between 2 and 5 years £m | Company due greater than 5 years £m | Company Total £m |
|---|---|---|---|---|---|
| Gross amount receivable from currency swaps | 2,290 | - | - | - | 2,290 |
| Gross amount receivable from forward foreign currency contracts | 347 | - | - | - | 347 |
| Total amount receivable | 2,637 | - | - | - | 2,637 |
| Gross amount payable from currency swaps | (2,354) | - | - | - | (2,354) |
| Gross amount payable from forward foreign currency contracts | (346) | - | - | - | (346) |
| Total amount payable | (2,700) | - | - | - | (2,700) |
| Total net amount payable | (63) | - | - | - | (63) |

**Market risk**

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio but the valuation and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

**(i) Interest rate risk**

Further information on how interest rate risk is managed is provided in the Risk section. The direct impact of a movement in interest rates is relatively small. An increase of 100 Basis Points would lead to an approximate exposure of £5 million (2008: £4 million) for the Group and £3 million (2008: £1 million) for the Company. This exposure arises principally from changes in interest payable and receivable on floating rate and short-term instruments and changes in the fair value of interest rate derivatives held at the year end. In addition the Group and Company have indirect exposure to interest rates through changes to the financial performance of portfolio companies caused by interest rate fluctuations.

**(ii) Currency risk**

Further information on how currency risk is managed is provided in the Risk section. The Group's net assets in Euro, US dollar, Swedish krona, Indian rupee, Swiss franc and all other currencies combined is shown in the table below. This sensitivity analysis is based on the sensitivity of the Group and Company's net assets to movements in foreign currency exchange rates. The Group manages currency risk on a consolidated basis.

| | Group 2009 Sterling £m | Group 2009 Euro £m | Group 2009 US Dollar £m | Group 2009 Swedish Krona £m | Group 2009 Indian Rupee £m | Group 2009 Swiss Franc £m | Group 2009 Other £m | Group 2009 Total £m |
|---|---|---|---|---|---|---|---|---|
| Net assets | **750** | **176** | **707** | **(75)** | **97** | **(8)** | **215** | **1,862** |
| **Sensitivity analysis** | | | | | | | | |
| Assuming a 5% movement in exchange rates against sterling: | | | | | | | | |
| Impact on exchange movements in the income statement | **n/a** | **58** | **107** | **(11)** | **(2)** | **30** | **n/a** | **182** |
| Impact on the translation of foreign operations in statement of recognised income and expense | **n/a** | **(46)** | **(79)** | **10** | **7** | **(30)** | **n/a** | **(138)** |
| **Total** | **n/a** | **12** | **28** | **(1)** | **5** | **-** | **-** | **44** |

| | Company 2009 Sterling £m | Company 2009 Euro £m | Company 2009 US Dollar £m | Company 2009 Swedish Krona £m | Company 2009 Indian Rupee £m | Company 2009 Swiss Franc £m | Company 2009 Other £m | Company 2009 Total £m |
|---|---|---|---|---|---|---|---|---|
| Net assets | **1,007** | **390** | **912** | **19** | **-** | **(147)** | **97** | **2,278** |
| **Sensitivity analysis** | | | | | | | | |
| Impact on exchange movements in the income statement assuming a 5% movement in exchange rates against sterling | **n/a** | **14** | **40** | **5** | **-** | **(8)** | **7** | **58** |

| | Group 2008 Sterling £m | Group 2008 Euro £m | Group 2008 US Dollar £m | Group 2008 Swedish Krona £m | Group 2008 Indian Rupee £m | Group 2008 Swiss Franc £m | Group 2008 Other £m | Group 2008 Total £m |
|---|---|---|---|---|---|---|---|---|
| **Net assets** | 4,077 | (24) | 91 | (14) | (67) | (6) | - | 4,057 |
| **Sensitivity analysis** | | | | | | | | |
| Assuming a 5% movement in exchange rates against sterling: | | | | | | | | |
| Impact on exchange movements in the income statement | n/a | 10 | 25 | (1) | (5) | - | n/a | 29 |
| Impact on the translation of foreign operations in statement of recognised income and expense | n/a | (17) | (19) | - | - | - | n/a | (36) |
| **Total** | n/a | (7) | 6 | (1) | (5) | - | n/a | (7) |

| | Company 2008 Sterling £m | Company 2008 Euro £m | Company 2008 US Dollar £m | Company 2008 Swedish Krona £m | Company 2008 Indian Rupee £m | Company 2008 Swiss Franc £m | Company 2008 Other £m | Company 2008 Total £m |
|---|---|---|---|---|---|---|---|---|
| Net assets | **4,125** | **203** | **238** | **(89)** | **(281)** | **(184)** | **(82)** | **3,930** |
| **Sensitivity analysis** | | | | | | | | |
| Impact on exchange movements in the income statement assuming a 5% movement in exchange rates against sterling | n/a | 2 | 8 | (5) | (15) | (10) | n/a | (20) |

(iii) **Price risk – market fluctuations**

Further information about the management of price risk, which arises principally from quoted and unquoted equity investments, is provided in the Risk section. A 5% change in the fair value of those investments would have the following direct impact on the income statement:

| | **2009 Quoted Equity £m** | **2009 Unquoted Equity £m** | **2009 Total £m** | 2008 Quoted Equity £m | 2008 Unquoted Equity £m | 2008 Total £m |
|---|---|---|---|---|---|---|
| Group | 30 | 96 | 126 | 44 | 160 | 204 |
| Company | 28 | 33 | 61 | 39 | 53 | 92 |

In addition, other price risk arises from carried interest balances and the derivative element of the Convertible Bonds.

## 3 Per share information

| | **2009** | 2008 |
|---|---|---|
| **Net assets per share (pence)** | | |
| Basic | **498** | 1,091 |
| Diluted | **496** | 1,077 |
| **Net assets (£m)** | | |
| Net assets attributable to equity holders of the Company | **1,862** | 4,057 |

| | **2009 Number** | 2009 Number |
|---|---|---|
| Ordinary shares in issue | **383,970,880** | 382,741,094 |
| Own shares | **(10,259,767)** | (10,867,901) |
| | **373,711,113** | 371,873,193 |
| Effect of dilutive potential ordinary shares | | |
| Share options | 1,399,354 | 4,954,110 |
| Diluted shares | 375,110,467 | 376,827,303 |

## 4 Related parties

| Income statement | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| Carried interest receivable | **(3)** | 60 | **(3)** | 60 |
| Fees receivable from external funds | **53** | 60 | **-** | - |

| Balance sheet | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| Carried interest receivable | **44** | 75 | **44** | 75 |

**Investments**

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

| **Income statement** | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| Realised profit over value on the disposal of investments | **151** | 369 | **2** | 180 |
| Unrealised (losses)/profits on the revaluation of investments | **(1,372)** | 196 | **(421)** | 59 |
| Portfolio income | **138** | 204 | **45** | 65 |

| **Balance sheet** | **Group 2009 £m** | Group 2008 £m | **Company 2009 £m** | Company 2008 £m |
|---|---|---|---|---|
| Quoted equity investments | **496** | 661 | **487** | 654 |
| Unquoted equity investments | **1,224** | 1,990 | **502** | 738 |
| Loans and receivables | **1,219** | 1,679 | **8** | 323 |

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. There has been non single transaction in the year with a material effect on the Group's financial statements and all such transactions are fully included in the above disclosure.

**Advisory arrangements**

The Group acts as an adviser to 3i Infrastructure plc and 3i Quoted Private Equity plc, companies listed on the London Stock Exchange. The following amounts have been included in respect of these advisory relationships:

| Income statement | Group 2009 £m | Group 2008 £m | Company 2009 £m | Company 2008 £m |
|---|---|---|---|---|
| Unrealised losses on the revaluation of investments | **(47)** | (11) | **(47)** | (11) |
| Fees receivable from external funds | **19** | 12 | **19** | 12 |
| Dividends | **17** | 6 | **17** | 6 |

| Balance sheet | Group 2009 £m | Group 2008 £m | Company 2009 £m | Company 2008 £m |
|---|---|---|---|---|
| Quoted equity investments | **395** | 503 | **395** | 503 |

Key management personnel

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

| Income statement | Group 2009 £m | Group 2008 £m |
|---|---|---|
| Salaries, fees, supplements and benefits in kind | **6** | 5 |
| Bonuses and deferred share bonuses | **1** | 12 |
| Increase in accrued pension | **-** | - |
| Carried interest payable | **(1)** | 19 |
| Share-based payments | **2** | 4 |
| Termination benefits | **3** | - |

| Balance sheet | Group 2009 £m | Group 2008 £m |
|---|---|---|
| Bonuses and deferred share bonuses | **1** | 12 |
| Carried interest payable within one year | **4** | 11 |
| Carried interest payable after one year | **7** | 11 |

Carried interest paid in the year to key management personnel was £14 million (2008: £18 million).

**Subsidiaries**

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

**Management, administrative and secretarial arrangements**

The Company has appointed 3i Investments plc, a wholly owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £39 million (2008: £39 million) for this service.

The Company has appointed 3i plc, a wholly owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £143 million (2008: £223 million) for this service.

**Investment entities**

The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent depending on the jurisdiction of the investment. The Company receives interest on this funding, amounting in 2009 to £1 million (2008: £1 million).

**Other subsidiaries**

The Company borrows funds from certain subsidiaries and pays interest on the outstanding balances. The amounts that are included in the Company's income statement are £nil (2008: £1 million).

## Ten largest investments

The table below provides information on our ten largest investments in respect of the Group's holding excluding any managed or advised external funds. The valuation basis provides further information on how the Group's valuation has been derived. Income represents dividends received (inclusive of overseas withholding tax) and gross interest receivable in the year to 31 March 2009. Net assets and earnings figures are taken from the most recently audited accounts of the investee business, and are the net assets of each business and the total earnings on ordinary activities after tax respectively. It should be noted that, because of the varying rights attached to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of the earnings and net assets to the proportion of equity capital held by the Group.

Further information on our portfolio investments is provided as case studies within the Business review section, and more generally at 3i.com

| **Investment**<br>(Business line) (Geography)<br>**Business description**<br>(First invested in) (Website) | Valuation basis | Proportion of equity shares held | Residual cost £m | Valuation £m | Income in the year £m | Net assets £m | Earnings £m |
|---|---|---|---|---|---|---|---|
| **3i Infrastructure plc** | Quoted | | | | | | |
| (Infrastructure) (UK) | | | | | | | |
| Quoted investment company, investing in infrastructure | | | | | | | |
| (2007) (3i-infrastructure.com) | | | | | | | |
| Equity shares | | 33.3% | 271 | 228 | 17 | | |
| | | | 271 | 228 | 17 | 922 | 44 |
| **3i Quoted Private Equity plc** | Quoted | | | | | | |
| (QPE) (UK) | | | | | | | |
| Quoted investment company, investing in quoted companies | | | | | | | |
| (2007) (3iqpe.com) | | | | | | | |
| Equity shares | | 44.9% | 180 | 167 | - | | |
| | | | 180 | 167 | - | 409 | 15 |
| **Venture Production plc** (1) | Quoted | | | | | | |
| (Growth) (UK) | | | | | | | |
| Oil and gas production | | | | | | | |
| (2007) (vpc.co.uk) | | | | | | | |
| Equity shares | | 5.4% | 34 | 64 | 1 | | |
| Loans | | | 76 | 76 | 2 | | |
| | | | 110 | 140 | 3 | 425 | 77 |
| **Enterprise Group Holdings Limited** | Earnings | | | | | | |
| (Buyouts) (UK) | | | | | | | |
| UK utilities and public sector maintenance outsourcing | | | | | | | |
| (2007) (enterprise.plc.uk) | | | | | | | |
| Equity shares | | 32.2% | 3 | - | - | | |
| Loans | | | 125 | 125 | 16 | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | 128 | 125 | 16 | 194 | 48 |
| **ACR Capital Holdings Pte Limited**<br>(Growth) (Singapore)<br>Reinsurance in large risk segments<br>(2006) (asiacapitalre.com) | Other | | | | | | |
| Equity shares | | 31.6% | 105 | 125 | - | | |
| | | | 105 | 125 | - | 307 | 8 |
| **Sortifandus, S.L.**<br>**(GES – Global Energy Services)**<br>(Buyouts) (Spain)<br>Wind power service provider<br>(2006) (services-ges.com) | Earnings | | | | | | |
| Equity shares | | 43.2% | 6 | 79 | - | | |
| Loans | | | 31 | 41 | 3 | | |
| | | | 37 | 120 | 3 | 20 | 6 |
| **Foster and Partners** [(2)]<br>(Growth) (UK)<br>Architectural services<br>(2008) (fosterandpartners.com) | Earnings | | | | | | |
| Equity shares | | 40.0% | | - | - | | |
| Loans | | | | 111 | 16 | | |
| | | | | 111 | 16 | (14) | (15) |
| **Quintiles Transnational Corporation** [(3)]<br>(Growth) (US)<br>Clinical research outsourcing solutions<br>(2008) (quintiles.com) | Earnings | | | | | | |
| Equity shares | | 7.0% | 100 | 109 | - | | |
| | | | 100 | 109 | - | (421) | 24 |
| **Inspicio Sarl**<br>(Buyouts) (UK)<br>Global testing and inspection<br>(2007) (inspicioplc.com) | Other | | | | | | |
| Equity shares | | 38.2% | 2 | - | - | | |
| Loans | | | 105 | 105 | 14 | | |
| | | | 107 | 105 | 14 | 107 | 3 |
| **Memora Inversiones Funerarias** [(3)]<br>(Buyouts) (Spain)<br>Funeral service provider<br>(2008) (memora.es) | Market adjustment | | | | | | |
| Equity shares | | 38.1% | 8 | 9 | - | | |
| Loans | | | 79 | 93 | 4 | | |
| | | | 87 | 102 | 4 | 85 | 7 |

**Notes**

1. Equity element is valued as listed, and loans are valued using amortised cost.

2. The residual cost for this investment cannot be disclosed per a confidentiality agreement in place at investment.
3. The increase in the difference between valuation and residual costs is due to foreign exchange movements between the sale of investment and 31 March 2009.

## 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 £19 million. This does not include four investments that have been excluded for commercial reasons.

| Investment | Description of business | Business line | Geography | First invested in | Valuation basis | Proportion of equity shares held | Residual cost £m | Valuation £m |
|---|---|---|---|---|---|---|---|---|
| **Ambea AB** ambea.se | Elderly, primary and specialist care | Buyouts | Sweden | 2005 | Earnings | 44.7% | 20 | 102 |
| **Telecity Group plc** telecitygroup.com | Operator of carrier neutral data centres | Buyouts | UK | 1998 | Quoted | 22.6% | 16 | 95 |
| **3i India Infrastructure Holdings Limited**[1] | Fund investing in Indian infrastructure | Infra-structure | India | 2007 | Other | 21.2% | 57 | 91 |
| **MWM GmbH** mvm.net | Provider of decentralised power generation systems | Buyouts | Germany | 2007 | Earnings | 41.3% | 75 | 91 |
| **Labco SAS** labco.eu | Clinical laboratories | Growth | France | 2008 | Market adjust-ment | 17.4% | 93 | 89 |
| **Socieded de Servicios Radiofonicos Union Radio, S.L.** cadenaser.com | Hispanic radio operator | Growth | Spain | 2008 | Market adjust-ment | 8.1% | 80 | 83 |
| **DNA Oy** dnaoy.fi | Telecom operator | Growth | Finland | 2007 | Earnings | 12.8% | 88 | 71 |
| **British Seafood Distribution Group Holdings Limited** britishseafood.co.uk | Seafood sourcer, processor and importer from Far East | Growth | UK | 2007 | Earnings | 28.5% | 76 | 69 |
| **Cornwall Topco Limited (Civica)** civica.co.uk | Public sector IT and services | Buyouts | UK | 2008 | Market adjust-ment | 40.6% | 65 | 65 |
| **Hyva Investments BV** hyva.com | Branded hydraulics for commercial vehicles | Buyouts | Netherlands | 2004 | Earnings | 44.1% | 4 | 65 |
| **Eltel Networks Oy** eltelnetworks.com | Network services | Buyouts | Finland | 2007 | Earnings | 36.9% | 85 | 54 |
| **Mayborn Group plc** maybourngroup.com | Manufacturer and distributor of baby | Buyouts | UK | 2006 | Earnings | 45.7% | 64 | 52 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | products | | | | | | | |
| **Anglian Water Group Limited** osprey-water.co.uk | Provider of drinking water and waste water services | Infra-structure | UK | 2006 | Other | 2.8% | 46 | 50 |
| **Inspecta Holding OY** inspecta.fi | Supplier of testing and inspection services | Buyouts | Finland | 2007 | Earnings | 40.7% | 45 | 50 |
| **EUSA Pharma Inc** eusapharma.com | Business focused on pain control, oncology and critical care | Venture Portfolio | UK | 2007 | Further round | 21.6% | 30 | 42 |
| **NORMA Group Holding GmbH** norma.de | Provider of plastic and metal connecting technology | Buyouts | Germany | 2005 | Earnings | 30.2% | 31 | 42 |
| **Joyon Southside**[1] | Real estate | Growth | China | 2008 | Other | 49.9% | 27 | 41 |
| **Scandferries Holding GmbH (Scandlines)** scandlines.de | Ferry operator in the Baltic Sea | Buyouts | Germany | 2007 | Other | 22.7% | 31 | 40 |
| **Gain Capital Holdings Inc** gaincapital.com | Retail online foreign exchange trading | Growth | US | 2008 | Earnings | 13.8% | 48 | 31 |
| **Otnortopco AS (Axellia/Alpharma**) alpharma.com | Developer and supplier of specialist active pharmaceutical ingredients | Buyouts | Norway | 2008 | Earnings | 49.9% | 59 | 31 |
| **Navayuga Engineering Company Limited** necltd.com | Engineering and construction | Growth | India | 2006 | Earnings | 10.0% | 23 | 30 |
| **Boomerang TV, S.A.** boomerangtv.co.uk | Production of audiovisual contents | Growth | Spain | 2008 | Earnings | 40.0% | 27 | 29 |
| **Goromar XXI,S.L**. (Esmalglass) esmalglass.com | Manufacture of frites, glazes and colours for tiles | Buyouts | Spain | 2002 | Earnings | 21.6% | 19 | 28 |
| **Radius Systems Limited** radius-systems.com | Manufacture of thermoplastic | Buyouts | UK | 2008 | Market adjust-ment | 31.6% | 26 | 26 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | pipe systems for gas and water distribution | | | | | | | |
| **APB SpA (AP Bags)** antichipellettieri.it | Luxury handbags | Buyouts | Italy | 2008 | Earnings | 27.5% | 52 | 26 |
| **Alö Intressenter AB** alo.se | Manufacturer of front end loaders | Growth | Sweden | 2002 | Earnings | 35.2% | 33 | 26 |
| **Advanced Power AG** advancedpower.ch | Developer of traditional power stations | Growth | Switzerland | 2008 | Net Assets | 38.1% | 21 | 25 |
| **Kneip Communication SA** kneip.com | Outsourced publication of investment fund data | Growth | Luxembourg | 2007 | Earnings | 41.1% | 25 | 25 |
| **Beijing Digital Telecom Co. Limited** dixintong.com | Mobile phone retailer | Growth | China | 2006 | Earnings | 17.4% | 11 | 24 |
| **Hyperion Insurance Group Limited** hyperiongrp.com | Specialist insurance intermediary | Growth | UK | 2008 | Other | 26.5% | 28 | 22 |
| **SLR Holdings Limited** slrconsulting.co.uk | Specialist environmental consultancy | Growth | UK | 2008 | Market adjust-ment | 34.0% | 33 | 22 |
| **Hobbs Holding No. 1 Limited** hobbs.co.uk | Retailer of womens' clothing and footwear | Buyouts | UK | 2004 | Earnings | 42.2% | 49 | 22 |
| **LHI Technology Private Limited** lhitechnology.com | Medical cable assemblies | Buyouts | China | 2008 | Earnings | 35.8% | 17 | 21 |
| **Delta Hydrocarbons** eep-llp.com | Oil and gas exploration | Growth | Netherlands | 2007 | Other | 23.2% | 42 | 21 |
| **RBG Limited** rbgltd.com | Oil and gas service provider | Buyouts | UK | 1996 | Earnings | 37.5% | 4 | 20 |
| **Apatech Limited** apatech.com | Synthetic bone products | Venture Portfolio | UK | 2001 | Further round | 44.6% | 22 | 20 |
| **Dockwise** dockwise.com | Specialist in heavy transport shipping within the marine and oil and gas industry | Buyouts | Netherlands | 2007 | Quoted | 14.7% | 1 | 20 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Franklin Offshore International Pte Limited** franklin.com.sg | Manufacture installation and maintenance of mooring and rigging equipment | Growth | Singapore | 2007 | Other | 30.9% | 15 | 20 |
| **Everis Participaciones S.L.** everis.com | IT consulting business | Growth | Spain | 2007 | Earnings | 18.3% | 30 | 19 |
| **Polyconcept Investments B.V.** polyconcept.com | Supplier of promotional products | Growth | Netherlands | 2005 | Earnings | 13.0% | 21 | 19 |

Notes:

(1) No company website is available for this investment

## Notes to the preliminary announcement

**Note 1**
The statutory accounts for the year to 31 March 2009 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2008 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**
Copies of the Report and accounts 2009 will be distributed to shareholders on or soon after 2 June 2009.

**Note 3**
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.