10 May 2007

3i Group plc announces £1.075 billion total return, investment up 42% and 25% growth in assets under management

Preliminary results for the year to 31 March 2007

	2007	2006
Investment activity		
Investment	**£1,576m**	£1,110m
Realisation proceeds	**£2,438m**	£2,207m
Returns		
Realised profits on disposal of investments	**£830m**	£576m
Gross portfolio return on opening portfolio value	**34.0%**	24.4%
Total return	**£1,075m**	£831m
Total return on opening shareholders' funds	**26.8%**	22.5%
Final dividend	**10.3p**	9.7p
Portfolio and assets under management		
Own balance sheet	**£4,362m**	£4,139m
Third-party funds	**£2,772m**	£1,573m
	£7,134m	£5,712m
Net asset value per share (diluted)	**932p**	739p

Highlights

- A total return of £1,075 million representing a return of 26.8% on opening shareholders' funds
- Investment increased by 42% to £1,576 million
- Total assets under management increased by 25% over the year, from £5,712 million to £7,134 million
- Realisation proceeds on the sale of assets of £2,438 million generating realised profits of £830 million
- Final dividend of 10.3p, making a total ordinary dividend for the year of 16.1p, up 5.9%
- Board confirms the return of £800 million to shareholders through a bonus issue of B shares

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

3i's Chief Executive, Philip Yea, said: "We continue to see good investment opportunities in our chosen areas, albeit that pricing remains high. Continued broadening of our investment activities by geography and asset class, and a focus on delivering real value within each specific opportunity, remain critical components of our strategy. Although levels of realisations are expected to slow, we remain confident of reporting further good progress in the delivery of our strategy over the year ahead."

Return of capital to shareholders

The Board of 3i Group plc also confirms, subject to shareholder approval, the proposed return of £800 million to shareholders. The proposed cash return is currently expected to be made by way of a bonus issue of listed B shares accompanied by a share consolidation designed to maintain comparability of share price and earnings per share. This is currently expected to take place in July.

Resolutions relating to the return of capital proposals will be put to shareholders at an Extraordinary General Meeting. A circular convening the EGM and giving more information and detail on the proposals is expected to be sent to shareholders in June.

- ends -

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For further information regarding the announcement of 3i's annual results to 31 March 2007, including video interviews with Philip Yea and Simon Ball (available 7.15am) and a live webcast of the results presentation (at 10.00am, available on demand from 2.00pm), please see www.3igroup.com.

Notes to editors

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

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

Chairman's statement

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

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

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

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

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

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

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

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

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

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

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

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

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

Baroness Hogg Chairman
9 May 2007

Chief Executive's statement

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

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

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

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

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

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

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

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

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

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

All of our senior management, and in particular our Group Partners, have made it their priority to ensure that this unique 3i culture is nurtured and strengthened, through informal and formal channels. We measure our colleagues' level of engagement on an annual basis.

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

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

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

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

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

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

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

Philip Yea Chief Executive
9 May 2007

Business review

Group Business

Introduction to the Group

3i is a world leader in private equity and venture capital with five distinct business lines investing across Europe, Asia and the US. We invest from our own balance sheet and also with funds that we advise or manage on behalf of others.

There are detailed descriptions, performance data and commentaries for our Buyouts, Growth Capital and Venture Capital business lines. Our two new business lines, Infrastructure and Quoted Private Equity are also described.

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

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

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

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

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

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

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

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

As a returns-focused business, we set clear targets for our key performance measures at a Group and business line level.

We employ a relatively small number of staff (an average of 765 for the year) for a FTSE 100 company, and they work in focused teams across 23 locations in three continents in a matrix structure. The key dimensions of this matrix are business line, geography and sector, with each business line unified through common carried interest schemes and processes. Our professional service teams are incentivised on Group performance.

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

Buyouts

Business model

The Buyouts business line targets cash-to-cash IRR returns of 20% through the cycle and is focused on leading or co-leading mid-market transactions across Europe of typically up to around €1 billion in value. Investments are made through a Limited Partnership private equity fund vehicle (currently Eurofund V), which is managed by 3i (see Fund management section). Returns from individual investments are achieved through a mix of income, returns of capital and capital realisation upon exit. Returns to 3i Group are enhanced through fees and carried interest from these funds.

A core element of the business model is that our team of over 100 investment professionals operate as one pan-European team with full economic alignment. This enables resources to be matched to opportunities across Europe on a "best team for the job" basis, allowing 3i to pursue larger and more complex transactions than smaller funds.

Strategy

The core elements of strategy relate to origination and value creation. As part of 3i Group, an extensive origination network is combined with pan-European decision making, sector expertise and access to high-quality operational expertise. This provides the opportunity to be able to choose the best 12-15 investments to make in each year.

Working with management, we create a bespoke value creation plan for each investment, focused on growing earnings and using 3i's network, knowledge and expertise to maximum effect. These value creation plans are benchmarked and reviewed by a team of experienced partners on a pan-European basis.

Extending our international reach has also been a component of our strategy. During the year a team was established to focus on central and eastern European investments. This team made its first investment shortly after the 31 March year end. Our latest fund, the €5 billion Eurofund V, also has the capacity to invest up to 10% of its capital in companies outside Europe.

Marketplace

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

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

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

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

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

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

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

Gross portfolio return
The Buyouts business line generated a gross portfolio return of £788 million in the year to 31 March 2007 (2006: £447 million). This represented some 54% (2006: 29%) of opening portfolio value, demonstrating the continuing effectiveness of our business model.

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

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

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

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

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

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

Growth Capital

Business model

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

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

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

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

Strategy

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

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

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

Marketplace

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

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

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

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

The average size of the 21 Growth Capital investments (2006: 18) made during the year was £26 million (2006: £21 million), with the two largest being Singapore-based ACR Limited at £105 million and Spanish-based STEN at £78 million.

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

Gross portfolio return
The Growth Capital business line generated a gross portfolio return of £569 million in the year to 31 March 2007 (2006: £341 million). This represents a return of 48% (2006: 26%) on opening portfolio value.

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

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

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

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

Venture Capital

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

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

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

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

The majority of Venture Capital investment is made directly from 3i's balance sheet. We also manage third-party funds of £15 million in Asia.

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

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

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

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

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

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

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

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

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

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

Gross portfolio return

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

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

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

Investment and realisations

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

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

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

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

Portfolio health

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

Infrastructure

Business model

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

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

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

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

Strategy

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

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

Marketplace

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

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

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

3i Infrastructure Limited

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

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

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

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

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

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

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

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

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

Quoted Private Equity ("QPE")

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

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

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

Strategy
The initial geographic focus of QPE's activity is in Europe and QPE will use 3i's sector resources and geographic deal origination network to build a view of each relevant sector and identify potential investment candidates. Investments will only be made on the basis of a strategic plan for each situation, which will include some or all of the following key elements:
– **Governance** – the strengthening of boards and executive management to ensure a direct connection between shareholders' interests and the operational delivery of performance;

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

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

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

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

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

Financial review

Investment activity

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

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

Investment

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

This represents a year-on-year increase of 42% in investment and followed an increase in the average size of new investment for the year to £26 million (2006: £15 million).

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

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

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

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

Realisations

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

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

The nature of realisations followed a broadly similar pattern to last year with 35% of proceeds arising from trade sales and 6% through refinancing portfolio businesses (2006: 26%, 8%). Sales to other private equity firms, so-called “secondaries”, amounted to £327 million (2006: £404 million). Ten portfolio companies achieved an IPO during the year and realisations from these and other quoted portfolio companies amounted to £240 million (2006: £372 million).

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

Returns

Total return

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

Total return
for the year to 31 March

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

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

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

Realised profit

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

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

Unrealised value movement

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

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

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

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

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

Portfolio income

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

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

Gross portfolio return

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

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

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

Gross portfolio return by business line for the year to 31 March	Gross portfolio return **2007** **£m**	 2006 £m	Return as a % of opening portfolio **2007** **%**	 2006 %
Buyouts	**788**	447	**54%**	29%
Growth Capital	**569**	341	**48%**	26%
Venture Capital	**(46)**	128	**(6)%**	17%
SMI	**74**	137	**13%**	18%
Infrastructure	**15**	n/a	**16%**	n/a
QPE	**6**	n/a	**n/a**	n/a
Gross portfolio return	**1,406**	1,053	**34%**	24%

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

Net carried interest
Carried interest aligns the incentivisation of 3i's investment staff and the management teams in 3i's portfolio with the interests of 3i's shareholders and fund investors. 3i receives carried interest from the co-investment funds managed by 3i Investments plc, and pays carried interest to investment staff based on the performance of its assets under management.

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

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

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

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

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

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

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

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

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

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

Portfolio and assets under management

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

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

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

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

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

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

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

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

Portfolio value by business line and age (£m)
as at 31 March

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

Portfolio value by geography (£m)
as at 31 March

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

Assets managed and advised by 3i

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

Assets under management (£m)
as at 31 March

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

Balance sheet

Capital structure and gearing

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

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

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

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

Growth in diluted net asset value

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

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

Consolidated income statement
for the year to 31 March 2007

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

*As restated.

Statement of recognised income and expense
for the year to 31 March 2007

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

Reconciliation of movements in equity
for the year to 31 March 2007

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

*As restated for the adoption of IFRIC 11.

Balance sheet
as at 31 March 2007

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

*As restated for the adoption of IFRIC 11.

Cash flow statement

for the year to 31 March 2007

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

Notes to the financial statements

1 Segmental analysis

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

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

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

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

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

Per share information

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

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

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2007 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2006 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any statements under section 237(2) or (3) of the Companies Act 1985. This announcement does not constitute statutory accounts.

Note 2
The final dividend will be payable on 20 July 2007 to holders of shares on the register on 22 June 2007.

Note 3
Copies of the Report and accounts 2007 will be distributed to shareholders on or soon after 25 May 2007.

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

Ten largest investments

The table below provides information on our ten largest investments, as required by LR 15.4.12, in respect of the Group's holding and excluding any co-investment by 3i managed funds, or share of 3i Infrastructure Limited owned by third parties. Income represents dividends received (inclusive of overseas withholding tax) and gross interest receivable in the year to 31 March 2007. Net assets and earnings figures are taken from the most recent audited accounts of the investee business, and are the net assets of each business and the total earnings on ordinary activities after tax respectively. It should be noted that, because of the varying rights attaching to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of the earnings and net assets to the proportion of equity capital held by the Group.

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

Notes

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

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

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

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

Forty other large investments

Detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £20 million. This does not include one investment that has been excluded for commercial reasons.

Investment Description of Business	Business line	Geography	First invested	Residual Cost (1) £m	Directors' Valuation (1) £m
Clínica Baviera S.A Eye laser surgery clinics	Growth	Spain	2005	27	62
Tato Holdings Limited Manufacture and sale of specialist chemicals	SMI	UK	1989	2	58
Boxer TV-Access AB Digital TV distributor	Growth	Sweden	2005	56	57
Senoble Holding SAS Manufacturer of dairy products and chilled desserts	Growth	France	2004	27	50
Jake Holdings Limited (Mayborn) Manufacturer and distributor of baby and household products	Buyouts	UK	2006	49	49
Care Principles TopCo Limited Specialist healthcare	Buyouts	UK	1997	20	44
Hobbs Holdings No.1 Limited Retailer of women's clothing and footwear	Buyouts	UK	2004	38	44
Volnay B.V. Dutch recruitment classified advertising	Buyouts	Netherlands	2007	43	44
Polyconcept Investments B.V. Supplier of promotional products	Growth	UK	2005	25	43
Planet Acquisitions Holdings Limited (**Chorion**) Owner of intellectual property	Buyouts	UK	2006	42	42
HSS Hire Services Holdings Limited Tool hire	Buyouts	UK	2004	20	40
Selbatoneil S.L. (La Sirena) Specialist frozen food retailer	Buyouts	Spain	2006	41	40
Nimbus Communications Limited Media and entertainment services	Growth	India	2005	39	37
Aviapartner Group S.A. Airport ground handling	Buyouts	Belgium	2005	35	36
ABX Logistics Group Industrial transportation	Buyouts	Belgium	2006	35	34
Smart & Cook Holdings Limited Insurance broking, life, pensions and investment	Growth	UK	2004	11	34
Sofitandus S.L. (GES – Global Energy Services) Wind power service provider	Buyouts	Spain	2006	33	33
CID Car Interior Design Holding GmbH Manufacturer of vehicle interior trim	Growth	Germany	2004	20	32
Norma Group Holding GmbH Provider of plastic and metal connecting technology	Buyouts	Germany	2005	25	29
Telecity Group plc Services for internet service providers	Buyouts	UK	1998	17	29
Kirk Newco plc (Enterprise) UK utilities and public sector maintenance outsourcing	Buyouts	UK	2007	29	29
Azelis Group Distributor of specialty chemicals, polymers and related services	Buyouts	Italy	2007	27	28
Alö Intressenter AB Manufacture of front end loaders	Growth	Sweden	2002	30	27
NCP Services Topco Limited Transport management and parking services	Buyouts	UK	2005	3	26
Kudos International Port operations	Growth	India	2006	27	26
EUSA Pharma Inc	Venture	EU/US	2007	26	26

Speciality pharmaceutical business					
Selective Beauty Holdings S.A. (Saint Denis) Independent distributor of branded fragrances and cosmetic products	Buyouts	France	2006	25	25
Kneip Communication S.A. Outsourced publication of investment fund data	Growth	Luxembourg	2007	25	25
CDH China Fund II China growth capital fund	Growth	China	2005	23	24
Wendt Holding GmbH Manufacturer of precision grinding tools	Buyouts	Germany	2005	2	24
Venture Production plc (2),(3) Oil and gas production	Growth	UK	2002	-	24
Newron Pharmaceuticals S.p.A (2) Central nervous system drug discovery	Venture	Italy	1999	12	23
Navayuga Engineering Company Limited Engineering and construction	Growth	India	2006	23	23
Morse plc (2) Technology integrator	Buyouts	UK	1995	8	23
Vonage Holdings Corp (2) Voice over internet service provider	Venture	US	2004	25	23
Goromar XXI, SL Manufacturer of frits, glazes and colours for tiles	Buyouts	Spain	2002	19	23
Fincorp Mortgage and insurance web broker	Growth	France	2006	22	22
Sulake Corporation Oy Online communities and multiplayer games	Venture	Finland	2003	5	22
Osby Intressenter AB (Brio Lekolar) Distributor of educational toys and materials	Buyouts	Sweden	2007	21	21
Demand Media Inc Internet/media domain name registry services	Venture	US	2006	21	20

Notes

1 The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.

2 Quoted company (including secondary markets).

3 The residual cost is less than £0.5 million.