13 May 2010

3i Group plc announces full year results to 31 March 2010

(Preliminary results for the year to 31 March 2010)

Key points

- Total return of £407 million, a 16.2% return on opening shareholders' funds
- Strong realisations of £1,385 million, at good average uplifts of 19% over opening carrying value
- Net debt reduced to £258 million (2009: £1,912m)
- Increase in net asset value to £3.21 (opening NAV of £2.79 at 31 March 2009)

3i's Chairman Baroness Hogg said:
A transformed financial position, improved performance, and a substantial increase in funds available to invest have put 3i in a strong competitive position."

Michael Queen 3i's Chief Executive added
"I am confident we will see some outstanding opportunities in the next three years and believe we are now well placed, with a focused business model, good liquidity and a strong balance sheet to invest in and build some great businesses."

	2010	2009
Investment activity		
Investment	**£386m**	£968m
Realisations	**1,385m**	£1,308m
Net divestment	**£999m**	£340m
Returns		
Gross portfolio return	**£843m**	£(2,206)m
Gross portfolio return on opening portfolio value[1]	**20.9%**	(36.7)%
Total return	**£407m**	£(2,150)m
Total return on opening shareholders' funds[2]	**16.2%**	(53.0)%
Dividend per ordinary share	**3.0p**	6.3p
Assets under management		
3i	**£5,787m**	£6,909m
External funds	**£3,846m**	£3,871m
Total assets under management[3]	**£9,633m**	£10,780m
Balance sheet		
3i portfolio value	**£3,517m**	£4,050m
Net debt	**£258m**	£1,912m
Gearing	**8%**	103%
Net asset value	**£3,068m**	£1,862m
Diluted net asset value per ordinary share	**£3.21**	£2.79[4]

[1] Opening portfolio value is the weighted average of the opening portfolio value, less the opening portfolio value of 3i's share of 3i Quoted Private Equity plc ("3iQPEP"), plus the value of investments transferred from 3iQPEP to 3i Group plc.

[2] Opening shareholders' funds is the weighted average of opening shareholders' funds and the equity value following the liquidation of 3i QPEP and the nine for seven rights issue.

[3] Assets under management has been re-defined and 2009 restated. The new definition is detailed in the Business review.

[4] Adjusted to reflect the impact of the rights issue and issue of shares related to the acquisition of 3i QPEP.

- ends -

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For further information regarding the announcement of 3i's annual results to 31 March 2010, including a live videocast of the results presentation from 09:45am, please see www.3igroup.com.

Notes to editors
3i is an international investor focused 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.

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2010 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2009 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 498(2) or (3) of the Companies Act 2006. This announcement does not constitute statutory accounts.

Note 2
Copies of the Report and accounts 2010 will be distributed to shareholders on or soon after 3 June 2010.

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.

Total return year to 31 March	**2010** **£m**	2009 £m
Realised profits over value on disposal of investments	**218**	63
Unrealised profits/(losses) on revaluation of investments	**458**	(2,440)
Portfolio income		
Dividends	**59**	65
Income from loans and receivables	**110**	108
Net fees payable	**(2)**	(2)
Gross portfolio return	**843**	(2,206)
Fees receivable from external funds	**59**	75
Carried interest receivable from external funds	**30**	(3)
Carried interest and performance fees payable	**(88)**	56
Operating expenses	**(221)**	(250)
Net portfolio return	**623**	(2,328)
Net interest payable	**(112)**	(86)
Movement in the fair value of derivatives	**9**	(38)
Net foreign exchange movements	**(35)**	315
Other (including taxes)	**(7)**	(5)
Pension actuarial loss	**(71)**	(8)
Total comprehensive income ("Total return")	**407**	(2,150)

Unrealised profits/(losses) on revaluation of investments year to 31 March	**2010** **£m**	2009 £m
Earnings and multiples based valuations		
Equity - Earnings multiples	**536**	(412)
- Earnings	**(171)**	14
Loans - Impairments (earnings basis)	**76**	(620)
First-time movements from cost	**-**	(584)
Market adjustment to earnings basis	**(8)**	-
Other bases		
Provisions	**(24)**	(156)
Uplift to imminent sale	**(28)**	(140)
Loans – Impairments (other basis)	**16**	(228)
Other movements on unquoted investments	**(16)**	(188)
Quoted portfolio	**77**	(126)
Total	**458**	(2,440)

Portfolio income year to 31 March	**2010** **£m**	2009 £m
Dividends	**59**	65
Income from loans and receivables	**110**	108
Fees payable	**(2)**	(2)
Portfolio income	**167**	171
Portfolio income/opening portfolio ("income yield")	**4.1%**	2.8%

Gross portfolio return by business line

	Gross portfolio return		Return as a % of opening portfolio	
	2010	2009	**2010**	2009
year to 31 March	**£m**	£m	**%**	%
Buyouts	**550**	(678)	**38**	(34)
Growth Capital	**194**	(1,035)	**11**	(44)
Infrastructure	**100**	(50)	**27**	(10)
Non-core activities	**(1)**	(443)	**-**	(39)
Gross portfolio return	**843**	(2,206)	**21**	(37)

Gross portfolio return by year

year to 31 March	%
2010	20.9
2009	(36.7)
2008	23.9
2007	34.0
2006	24.4

Chairman's statement

The past year has seen a transformation in 3i's finances and a marked improvement in performance. Net debt has been reduced from £1,912 million at 31 March 2009 to £258 million at 31 March 2010 and total return recovered to 16.2%. As I come to the end of my time as Chairman of 3i Group, I would like to thank the shareholders, management and staff of 3i for their part in turning round the Company's fortunes after the worst crisis in financial services, and the sharpest economic downturn, in its history. 3i's recovery, at a time when many have foundered, is a tribute to them all.

My thanks go first to our shareholders for a major element in the restoration of 3i's finances, which came from their tremendous response to our £732 million rights issue in June 2009. This support was given on the clear understanding that it would be matched by self-help. So I would also like to express the Board's thanks to the 3i team for cutting costs and achieving realisations totalling £1,385 million during the year.

Our portfolio did not escape unscathed from the recession. The Buyouts business suffered two significant failures - both provided for as part of the sharp drop in valuations during 2008-09 - and our Growth Capital business suffered one significant failure. However, even after allowing for this, realisations were achieved at a19% uplift to values at the end of March 2009. And thanks to our active engagement with portfolio companies and the quality of their management, overall portfolio performance improved markedly in the second half of the year.

We continue to take a cautious view of the earnings in the portfolio, so valuations tend to lag the recovery in stock markets. But even so, gross portfolio returns in the year to March 2010 were 38% in Buyouts, 11% in Growth Capital and 27% in Infrastructure. With net debt now significantly below the £1 billion target that we set for the end of 2009-10, the Board has decided to recommend a final dividend of 2.0p, reflecting our commitment to return to a progressive approach following the rebasing last year.

Michael Queen, who became Chief Executive shortly before the start of the financial year on which we report today, has positioned 3i to take advantage of opportunities during the next phase of the economic cycle. He and his team are also continuing to build the platform for growth in international markets. With the new Growth Capital Fund, all business lines can now deploy external funds alongside 3i Group capital. Michael has strengthened his management committee to provide consistent investment disciplines across all business lines, and reviewed 3i's capabilities in all our key markets in Asia, Europe and the United States. My thanks go to him for his excellent management of 3i through a challenging period.

During 2009-10 we also saw some further changes on the Board. Robert Swannell became Senior Independent Director and Oliver Stocken, our long-serving Deputy Chairman, retired from the Board, as did Lord Smith of Kelvin. John Allan, Chairman of DSG International, and Alistair Cox, Chief Executive of Hays, joined in September and October 2009. Julia Wilson, our Finance Director, came back from maternity leave at the end of 2009-10; a welcome return, although Stephen Halliwell has ably filled in for her through this year. My thanks go to all members of the Board, for their contributions and commitment to 3i.

And at the end of 2009, the Nominations Committee established a sub-committee of non-executive Directors to undertake the search for my successor. Having taken up my new role as Chairman of the Financial Reporting Council, I will be handing over to Sir Adrian Montague at the AGM. I am delighted that Adrian has been appointed. He brings a wide range of relevant experience to the Chairmanship of 3i, and will I know provide the Board with first-rate leadership in the years ahead.

Since I joined the Board in 1997, there have been huge shifts in the geopolitical landscape, trade and economic power. We have had sharp reminders of how global markets can magnify threats as well as opportunities, most recently with the explosion and collapse of the world debt markets. But in that time too, 3i has transformed itself to compete in today’s investment world. No longer a domestic company with some European business, 3i has established itself in China and India and has a position in the United States as well. The Chief Executives I have worked with during my 13 years on the Board each played a part in building the new 3i.

The after-shocks from the credit crunch continue to destabilise financial markets, as they wait with decreasing patience for governments to repair their fiscal deficits. But 3i has a great ability to adapt, a brand built on its reputation as an investment partner, committed and engaged shareholders, and is strongly placed to deploy these advantages in fast-changing markets. And I am confident that 3i will enjoy strong leadership in the years ahead.

Baroness Hogg
Chairman
12 May 2010

Chief Executive's statement

Our vision
To be recognised as a leading international investor based on:

- the value we add to our portfolio
- the returns we deliver to our investors
- our responsible approach and style of investing

Our values
In all our activities we will:

- be commercial and fair
- respect the needs of shareholders, investors, our people and the companies in which we invest
- maintain our integrity and professionalism
- strive for continual improvement and innovation

Last year I set out that our key priorities were to ensure that 3i was both financially robust and operationally agile. In the last 12 months we have made significant progress in both these objectives. A combination of strong shareholder support for the rights issue in June last year and decisive management action means that net debt is now well within the limits we have set, the business has been reshaped to focus on our competitive strengths and we now have choices about the future direction of 3i.

This could not have been achieved without the determination and commitment of everyone that works at 3i. I am grateful for their support and confident that we have a strong platform to take 3i forward in what remains a challenging environment, albeit one for which 3i's competitive advantages and business model are well suited.

Market environment
Stock markets rallied strongly through 2009, anticipating the end of the recession in developed countries. Private equity activity also recovered but at a much slower rate. Investment levels in 2009 were the lowest for a decade and, while 2010 looks to be stronger, total investment is likely to be well short of that in the period from 2005 to 2007.

Banks have regained some confidence and debt is increasingly available for transactions, although this is a mixed picture, with tough negotiations between portfolio companies and banks being a common occurrence. Pricing for those transactions completing has been high, with significant private equity competition for those deals that have been completed. This can be partly explained by the fact that the private equity industry is well funded and is largely incentivised to deploy capital rather than returning uninvested commitments to investors.

Our market positioning has ensured that we have had the option to consider many of the investment opportunities arising in our market, but we have adopted a cautious approach, judging that many of the deals being completed did not offer good value.

As the pace of recovery has been slow, corporations have continued to focus on de-gearing their balance sheets and we have not yet seen a strong demand for growth capital. However, there are some positive signs that this is now changing.

Performance

A total return of 16% (2009: (53)%) represents a significant recovery from last year. We benefited from stock market recovery as we use market multiples to value assets, but we also saw some strong realised profits on exit, as well as more positive earnings performance in many of our portfolio companies.

Our approach to valuation means much of the strong recoveries in earnings that are visible in forecasts and budgets of portfolio companies will not be reflected in our reported performance until those anticipated earnings improvements are actually achieved.

Manufacturing businesses saw the strongest recovery – particularly those based in continental Europe with export-led business models. European consumer-facing businesses found life harder and we would expect this to continue as European governments start to reduce fiscal deficits and personal disposable income comes under pressure as interest rates and taxation rise.

In the context of weak M&A markets, realisations held up well at £1.4 billion (2009: £1.3 billion), with the uplift on sales over the opening valuations being 19%.

There were two new investments in new portfolio companies in the year. This reflected our focus on the existing portfolio, as well as our perception that there were few investment opportunities offering good value, for reasons noted above. We have, however, been keen to support our portfolio and helped them make 16 acquisitions in aggregate during the year, which we believe will be value accretive to the portfolio companies themselves and to 3i.

Last year I highlighted that we may have needed to invest heavily to protect our portfolio from the impact of covenant breaches on bank debt. The amount required of £52 million turned out to be much less than anticipated due to some outstanding work by our teams and the management in our portfolio companies. However, we have seen some losses. The failure of British Seafood in February 2010 was our largest single loss in the year. Two significant investments in the Buyouts portfolio effectively failed in the year, although the financial impact from these had been recognised in full in the previous financial year. Overall, our portfolio is performing well and showing both resilience and good upside potential as earnings recover.

As can be seen from the business line reviews, the Buyouts business has recovered strongly this year. Jonathan Russell and his team had moved early to ensure that costs were taken out in portfolio companies and that new market opportunities were explored. The case studies in this report and in our online reporting centre provide examples of this.

The sale of Ambea for £212 million in February was a notable achievement and was delivered through the combination of an active buy-and-build strategy and improvements in the margins and operating model of the business.

Growth Capital raised a dedicated fund for the first time, raising around €400 million of external capital which, together with €800 million of balance sheet capital, provides a good platform for investment in the next two years. Guy Zarzavatdjian and Paul Waller led this effort in what was a very tough fundraising environment. This now means all three of our core business lines invest a mixture of balance sheet capital and third-party funds.

Infrastructure delivered a good performance with a gross portfolio return of 27%. This largely reflected the increase in the 3i Infrastructure plc share price from its depressed level in March 2009. The underlying asset performance in Infrastructure was solid, further demonstrating the consistency and low volatility of returns that make infrastructure such an attractive asset class.

We sold the bulk of our Venture portfolio during the year at what we considered was an attractive price, recovering most of our last balance sheet value. The remaining non-core Venture portfolio and SMI assets now account for less than 5% of the total portfolio.

Balance sheet

Having restored the Group to financial health, we intend to maintain a conservative balance sheet. We do not intend to have significant leverage at the Group balance sheet level and so will no longer focus on gearing as a key financial target in its own right. Instead, we will continue to focus on limiting the absolute level of net debt, reducing gross debt and managing its maturity profile and maintaining liquidity, thereby ensuring we are well placed to take advantage of investment opportunities as they arise.

This year, the combination of strong realisations in the second half and low investment means that we finish the year with net debt of only £258 million. I expect this to increase next year as we increase our investment level, but we will stay below our £1 billion limit.

Operating costs

We have taken some difficult decisions during the year to ensure that we have the right cost base for the business. A further 148 employees left during the year, with headcount at the end of the year being 488. We also decided, after a comprehensive consultation process with affected employees, to close the UK defined benefit pension scheme to future accrual for current members with effect from 5 April 2011. Taking steps such as these creates the flexibility to increase resource in areas of strategic importance, such as Asia, without a corresponding increase in overall costs.

Vision, Business model and Strategy

Last year, on becoming Chief Executive, I set out a short-term strategy based on restoring the business to financial health. In this Annual Report we have articulated a longer term vision and strategy as well as setting out the key elements of our business model and the values that are fundamental to 3i.

3i's business is investment and our vision is to be recognised as a leading international investor. I believe we should be judged not only on the returns we deliver to our shareholders and third-party investors, which should reflect the value we add to companies in which we invest, but also on our responsible approach to investing.

Our purpose is to work with talented management teams and entrepreneurs to build great companies, thereby generating outstanding investment returns for our shareholders and third-party investors. The terms on which we invest are, of course, critical and we will at all times be highly disciplined in ensuring that we invest well.

Everything 3i does is based on a set of core values that we believe are enduring, and our brand and the values others associate with it are intended to be the outward representation of this.

Our business model is predicated on investment in our network of offices, our people and our relationships, as well as the maintenance and enhancement of our sector knowledge.

These elements enable us to have access to the best investment opportunities in the markets we choose to focus on. The combination of excellent opportunities with innovative financial solutions creates the potential to build great companies delivering good investment returns. These returns are only achieved if we work closely with companies, ensuring they achieve their full potential. Delivering strong investment returns gives us access to multiple capital sources and provides shareholders with a combination of dividends and capital growth.

Looking forward

3i's strategy is focused on continuous improvement to each element of our business model. We intend to strengthen our network, particularly in Asia, and to deepen our sector focus and build our capabilities to support our portfolio companies through our "Active Partnership" programme. All of this will strengthen our market position and build sustainable competitive advantage.

We are already seeing significant opportunities to build on 3i's current business through growth into adjacent areas and extension of our geographical presence. While it is our intention to expand the business over the next few years, the absolute priority remains the delivery of attractive returns to shareholders through achieving the full potential of current activities.

I am confident we will see some outstanding opportunities in the next three years and believe we are now well placed, with a focused business model, good liquidity and a strong balance sheet to invest in and build some great businesses.

Finally, I would like to record my own thanks to Sarah Hogg. Sarah joined the Board in 1997 and has been Chairman for eight years. The test of any Board is how it deals with difficult times and tough decisions, and Sarah has shown remarkable resilience, good judgment and integrity throughout. She has provided wise counsel to the executive management team at 3i and has helped me considerably in moving into my current role as Chief Executive. Everyone connected with 3i is indebted to her and, on behalf of them, I would like to thank her and wish her well for the future.

Michael Queen
Chief Executive
12 May 2010

Business review

Introduction to the Group

3i is an international investor focused on buyouts, growth capital and infrastructure, investing in Europe, Asia and North America.

3i is a focused investment business with a portfolio of 198 investments, well diversified by geography, sector and business line. This diversity can be seen from the schedule of some of our largest investments in the Top 10 investments and Forty other large investments.

Following the announcement of the launch of the €1.2 billion Growth Capital Fund on 25 March 2010, all three of 3i's business lines invest using a mix of the Group's own balance sheet capital and external capital. Total assets under management at 31 March 2010, including 3i's commitments to funds, were £9.6 billion (2009: £10.8 billion), including £3.8 billion (2009: £3.9 billion) advised or managed on behalf of others.

Corporate responsibility and risk management are central to our strategy and there are reports on each of these important aspects of our business in our Annual Report.
The Group's total return is generated by the realised and unrealised returns we achieve from our portfolio, the fees we receive from advising or managing external funds, less the operating expenses and funding costs of the business.

The key financial performance measures relate to the year ending 31 March 2010. As our business develops, we have defined two additional measures that will be reported from 1 April 2010: net portfolio return; and operating costs as a percentage of assets under management. These are described in more detail in the relevant sections of this Business review.

Our key non-financial performance measures are employee engagement and environmental impact. Employee engagement is important to 3i as an international investor employing a relatively small number of people in total, in a highly competitive market. Although 3i's environmental footprint is relatively low, we aim to minimise our impact on the environment and this also supports employee engagement.

A detailed review of our performance at a Group and business line level for the year to 31 March 2010 is set out in this review. The key business line performance measures are set out below.

Key Group performance measures

Financial		
	2010	2009
Total return	**16.2%**	(53.0)%
Gross portfolio return	**20.9%**	(36.7)%
Cost efficiency	**4.1%**	3.0%
Gearing	**8%**	103%
Net asset value per share movement[1]	**£0.43**	£(5.64)

[1] Growth in NAV is stated before dividends, other distributions to shareholders, the rights issue and the 3i QPEP transaction. The 2009 comparative has not been restated for the rights issue and the 3i QPEP transaction.

Non-financial		
	2010	2009
Employee engagement	**74%**	83%
Environmental impact (CO_2)[1]	**7,232**	8,428

[1] Tonnes per year equivalent emissions.

Key business line performance measures

Gross portfolio return

Portfolio health

Long-term IRRs by vintage

Our strategy

We know from being an investor that a clear strategy is fundamental to success but it is not enough. It is the delivery that makes a strategy real. So here are the key elements of our strategy and how we plan to deliver them.

Our strategy		**Delivering our strategy**
To invest	• in growing companies that fit with our values • with management teams and entrepreneurs, working with them to deliver their full potential • in our own people, knowledge and networks	• Further strengthen the market access we gain through each and every aspect of our network • Increase deal flow through our focused origination plans for business lines, sectors and countries • Ensure that those companies we back have strong boards and management teams with aligned interests to 3i • Develop further the range and delivery of our active partnership programmes
To grow our business	• in areas consistent with our skills • by strengthening our international network and building our sector capabilities • with a conservative financial structure accessing multiple sources of capital	• Strengthen our presence in existing markets where there is opportunity to grow • Investigate new markets and opportunities, including managing assets for others, where there is a natural fit with our strengths • Use our financial strength to invest in our people, network and capabilities • Deploy greater cross-business line resource to achieve full potential from our investments
To grow our reputation	• as a respected and responsible investor • by continuing to improve and innovate	• Continue to invest in our brand through the training and development of our people and the importance that we place on developing long-term relationships • Build on our heritage, both as a company and as an investor, of pioneering on corporate responsibility issues and transparency • Use our conservative financial structure and risk management processes to balance risk and returns
To maintain a "One 3i" culture	• with a shared set of values across the Group • a consistent approach to the way we do business • a commitment to excellence in all our activities	• Build on our culture of operating as one company across business lines, geographies and sectors • Further increase our emphasis on good internal communications and knowledge management

Investment funding model

Introduction

Access to multiple sources of capital to fund investment is a strength of 3i's business model. 3i invests from its own balance sheet and also with funds that it manages or advises for others. 3i is currently well funded for investment through the strength of its balance sheet, its liquidity and from the undrawn commitments made by the external investors in its funds.

The management of external funds enhances returns to the Group through fees and carried interest receivable. This section of the Annual Report provides a summary of the development of 3i's fund management and advisory business during the year both at a Group and business line level. Tables 1, 2, 3, and 4, also provide details on each of the individual funds managed or advised as well as information about the composition of the investors in these funds. Further information is also provided at a business line level in the Business line section of this review.

Fund management fees and carried interest are earned on co-investment funds such as Eurofund V and the 3i India Infrastructure Fund. Advisory fees are earned through advising 3i Infrastructure plc. Fee levels vary by fund and also usually over the life of the fund. Fees are based on either committed capital for active investing funds such as Eurofund V, or invested capital, as in the case of 3i Infrastructure plc. When a fund passes the investing phase, fees are earned on the residual portfolio cost being managed.

Following the announcement of the launch of the €1.2 billion Growth Capital Fund on 25 March 2010, all three of 3i's business lines invest using a mix of external and the Group's capital. As can be seen from Table 1, at 31 March 2010 total assets owned, managed or advised by 3i were £9.6 billion (2009: £10.8 billion), with external funds accounting for 40% (2009: 36%) of this total.

3i seeks alignment of interest between shareholders and fund investors in a range of ways, including significant investment or commitment by the Group in each of the funds that it manages or advises.

Development of 3i's fund management and advisory business by business line

Buyouts

3i has used limited partnership funds for buyouts since 1994. 3i manages these funds and, as can be seen from Table 1, it has a significant co-investment commitment in each.

The latest Buyouts fund, the €5 billion Eurofund V, was raised in November 2006 and was 54% invested as at 31 March 2010 (2009: 53%). A slower rate of investment in the last two years has resulted in less funds being deployed than initially anticipated at this stage. The performance on Eurofund IV continues to remain strong.

Fee income from managed funds for Buyouts totalled £39 million in the year (2009: £45 million).

Growth Capital

The major development during the year to 31 March 2010 was the launch of a limited partnership Growth Capital Fund of €1.2 billion just before the year end. At 31 March 2010, investors from Asia, Europe, the Middle East and North America had committed circa €400 million to the Fund. As part of its €800 million commitment, 3i contributed a seed portfolio of Growth Capital investments valued at €339 million. Until this point, Growth Capital investment was funded principally from the 3i balance sheet.

The Growth Capital Fund will continue 3i’s existing Growth Capital strategy to make minority investments in growing businesses across Europe, Asia and North America. It is intended that the Fund will be invested in around 20 mid-market companies and will invest between €25 million and €150 million of equity in each opportunity. The Fund’s first new investment was announced on 25 March 2010.

Infrastructure

3i’s own capital was originally used to launch the Infrastructure business line in Europe and in India. In 2007, a £703 million listed company, 3i Infrastructure plc (“3iN”) was launched. The Group’s initial investment in 3iN was £325 million and the Group subsequently invested a further £25 million in a £115 million placing and open offer. In September 2007, 3i launched the $1.2 billion 3i India Infrastructure Fund in which 3i and 3iN made individual commitments of $250 million.

At 31 March 2010 3iN had invested 86% of its raised capital and the 3i India Infrastructure Fund was 42% invested (2009: 77% and 41%).

Fee income from infrastructure funds managed or advised by 3i totalled £20 million in the year to 31 March 2010 (2009: £26 million).

Further information about the external funds deployed in our Buyouts, Growth Capital and Infrastructure business lines can be found later in this review.

Assets under management

Assets owned, managed and advised by 3i (“AUM”)

The Group defines its assets under management (“AUM”) as the total commitments, including the Group’s, to its active managed and advised funds, as well as the residual cost of investments in funds that are already invested and the cost of any other investments owned directly by 3i. As at 31 March 2010, the Group had total AUM of £9,633 million (2009: £10,780 million).

This definition has been updated from that used in previous years as each business line now invests alongside and has 3i commitments aligned to external funds. The new AUM measure therefore incorporates 3i’s commitments in order to report a total AUM amount which is in line with industry practice.

An 11% reduction in assets under management during the year to £9,633 million at 31 March 2010 (2009: £10,780 million) was principally the result of a reduction in the underlying portfolio cost of non-fund investments following strong realisations in the year and the solvent liquidation of 3i QPEP. This was partially offset by the launch of the Growth Capital Fund.

Table 1: Assets under management

	Business line	Close date	Original fund size	Original 3i commitment	% invested at March 2010	Residual cost	AUM
Active managed funds							
3i Eurofund V	Buyouts	November 2006	€5,000m	€2,780m	54%	n/a	€5,000m
3i India Infrastructure Fund	Infrastructure	March 2008	$1,195m	$250m	42%	n/a	$945m[1]
3i Growth Capital Fund	Growth Capital	March 2010	€1,192m	€800m	37%	n/a	€1,192m
Active investing advised funds							
3i Infrastructure plc	Infrastructure	March 2007	£928m[2]	£308m[3]	n/a	n/a	£928m[2]
Invested managed funds							
3i Eurofund III	Buyouts /Growth Capital	July 1999	€1,990m	€995m	91%	€96m	€96m
3i Eurofund IV	Buyouts	June 2004	€3,067m	€1,941m	95%	€640m	€640m
Other invested funds	Various	Various	Various	Various	Various	£364m	£364m
Other assets							
3i owned (non-fund)	Buyouts					£93m	£93m
	Growth Capital					£1,269m	£1,269m
	Infrastructure					£1m	£1m
	Non-core					£168m	£168m
Total AUM (in sterling)							**£9,633m**

[1] Adjusted to reflect 3i Infrastructure plc's $250 million commitment to the Fund.
[2] Based on latest published NAV (ex-dividend).
[3] 3i Group's proportion of latest published NAV.

Table 2: Breakdown of AUM (%)

as at 31 March 2010	
Commitments to active funds managed and advised	74
Residual cost of invested funds	10
Cost of 3i non-fund investments	16

Table 3: External investor base for non-listed funds managed and advised by geographic location (%)

as at 31 March 2010	
Continental Europe	33
North America	27
UK	16
Asia	14
Middle East	10

Table 4: External investor base for non-listed funds managed and advised by type of investor (%)

as at 31 March 2010	
Pension funds	30
Fund of funds	21
Government agencies	20
Insurance companies	16
Financial institutions	8
Endowments	3
Private individuals	1
Other	1

Market conditions

Market conditions

This section provides commentary on the broader environment in which 3i operated during the year.

After the near collapse in the market in late 2008 and early 2009, conditions for private equity fundraising, investment and realisations in 3i's key markets of Europe, Asia and North America were more encouraging in the second half of the financial year to 31 March 2010. An improved macroeconomic environment and increased confidence in equity markets were key reasons for this. However, both remain fragile and conditions are highly variable from country to country. It is also as yet unclear what the impact will be of the unwinding of measures taken by governments in many countries to alleviate the global financial crisis.

Mergers and acquisitions

Conditions in mergers and acquisitions ("M&A") markets influence the environment for both investment and realisations across the Group. Global M&A activity for 2009 was at its lowest level since 2004 (source: Dealogic) with European activity some 44% lower than in the previous year. However, data from the same source showed that deal volume for the six months to 31 March 2010 was starting to recover and was 15% higher than in the six months to 31 March 2009.

New listings (IPOs)

New listings, or IPO activity, started to pick up in the second half of 2009 but was still down 32% on the year (source Ernst & Young Global IPO update). Asia and South America accounted for 72% of total IPO value in 2009. In North America and Europe activity was very subdued. Global IPO activity in the first quarter of 2010, with 267 deals globally worth $53.2 billion, showed substantial improvement over the first quarter of 2009, which has been the lowest quarter for a decade (52 deals $1.4 billion). Asia accounted for some 66% total global IPO fundraising in the first quarter of 2010.

Fundraising
Fundraising by private equity firms during 2009 was also the lowest since 2004 (source: Preqin). Aggregate capital raised by private equity funds worldwide was $246 billion, down 61% from 2008. However, buyout funds still raised $102 billion in 2009. Although 56% lower than the previous year, this fundraising added significantly to funds raised in earlier years, supporting an active market for secondary transactions and a competitive environment for new investments.

Global fundraising for infrastructure slowed during 2009 to $6.3 billion, with fundraising in North America and Europe aggregating to $2.9 billion. The infrastructure market continued to be affected by tight credit markets.

Investment
European private equity investment at €29 billion was 66% lower in 2009 than in 2008 (source: unquote"). However, investment of approximately €10 billion in the final quarter of 2009, and a similar level in the first quarter of 2010, evidenced signs of a recovery. Mid-market buyout investment (deals between €100 million to €1 billion) accounted for two thirds of first quarter 2010 investment (source: unquote").

New private equity investment in "Asia Pacific", which includes the three main areas in which 3i is active (India, China and South East Asia), was 37% lower in 2009 (source: Asia Venture Capital Journal "AVCJ"), despite a fall of less than 7% in China and India investment was down 60%.

The latest AVCJ data shows that a recovery in the final quarter of 2009 was sustained into the first quarter of 2010.

Detailed descriptions of the market conditions for each of our Buyouts, Growth Capital and Infrastructure business lines are contained within the business line section of this review.

Investment and realisations

Table 5: Investment activity – own balance sheet and external funds

	3i own balance sheet		External funds	
	2010	2009	**2010**	2009
year to 31 March	**£m**	£m	**£m**	£m
Realisations	**1,385**	1,308	**157**	360
Investments	**386**	968	**325**	678
Net divestment/(investment)	**999**	340	**(168)**	(318)

As Table 5 shows, 3i's realisation proceeds were strong in the year to 31 March 2010. This, combined with a highly selective approach to new investment throughout the year, enabled the Group to deliver net divestment of £1.0 billion.

Investment
Total investment for the year to 31 March 2010 was £386 million (2009: £968 million). This low level of investment included £21 million of new investment and reflected a significantly reduced level of market activity, as well as our focus on supporting the development and growth of portfolio companies.

Table 6 illustrates the split of total investment in the year by nature of investment. Given the economic conditions experienced during the year, our portfolio required a range of financial support. Several portfolio companies were able to capitalise on growth opportunities and we invested £18 million in these businesses to support them in financing acquisitions. Others needed funding to support restructurings. We invested a total of £83 million in restructurings, which was lower than anticipated at the start of the year. In addition, £64 million was drawn down from existing commitments. The majority of this, £42 million, was for new investments made within the Debt Warehouse. As in previous years, an element of gross investment was non-cash through capitalised interest. This amounted to £183 million in the year to March 2010 (2009: £127 million).

Table 7 shows investment by business line. At £243 million (2009: £519 million), Buyouts accounted for 63% of total investment, including £137 million of capitalised interest through the PIK note loan instrument commonly used in Buyout transactions. Investment in Buyout restructurings at £44 million was at a low level, given the size of the portfolio. Investment in Growth Capital totalled £121 million (2009: £343 million), which included £21 million in the first new investment of the Growth Capital Fund.

Non-core investment in the year of £20 million (2009: £56 million) was minimal and was focused on meeting existing commitments, or investing to strengthen positions ahead of sale.

As shown by Table 8, continental Europe and the UK accounted for 88% of gross investment in the year.

In addition to 3i's own balance sheet investment, a further £325 million was invested on behalf of our managed and advised funds, which included new investment made by 3i Infrastructure plc.

Further detail on investment activity within each of our business lines can be found in the business lines section of this review.

Table 6: Total investment (£m)

for the year to 31 March 2010

Total investment: £386 million

New/first investment	21
Acquisition finance	18
Restructurings	83
Capitalised interest[1]	183
Drawdown on existing commitments	64
Other	17

[1] Includes PIK notes.

Table 7: Investment by business line (£m)

for the year to 31 March 2010

Total investment: £386 million

Buyouts	243
Growth Capital	121
Infrastructure	2
Non-core activities	20

Table 8: Investment by geography (£m)

for the year to 31 March 2010

Total investment: £386 million

UK	222
Continental Europe	118
Asia	25
North America	19
Rest of World	2

Realisations

Proceeds from realisations of balance sheet investments in the year to 31 March 2010 of £1,385 million (2009: £1,308 million) were marginally ahead of last year but at a substantially higher average uplift to opening value of 19% (2009: 5%). This was driven by a strong level of realisations in the second half of the year, during which we realised a number of investments at good uplifts to their opening values. Realisations generated realised profits of £205 million in the second half at a 30% uplift on 31 March 2009 valuations (previous six months to 30 September 2009: £13 million, 3%).

The proportion of these realisations by business line, geography and type of realisation is shown in Tables 9, 10 and 11.

Buyouts and Growth Capital accounted for 34% and 42% of realisation proceeds respectively. Growth Capital realisations of £578 million include £96 million of proceeds received on the partial sale of the seed portfolio to external investors in the Growth Capital Fund, as well as the sell down of non-core assets transferred from 3i Quoted Private Equity plc ("3i QPEP") (£56 million).

The nature and age profile of infrastructure investments and the structure of 3i's investment in 3i Infrastructure plc mean that realisations during the year were minimal and were comprised almost entirely of the sale of the majority of the Group's remaining own balance sheet holding in Anglian Water Group ("AWG") (£45 million).

Non-core portfolio realisations of £294 million (2009: £236 million), marginally ahead of their carrying value, reduced the non-core portfolio to less than 5% of the Group's total portfolio. These non-core realisations do not include £110 million of cash received by the Group in respect of the 3i QPEP transaction, completed in April 2009.

Continental Europe and the UK accounted for 84% of total realisations (2009: 82%), including the largest three realisations in the year, Ambea (Buyouts: £212 million), Venture Production (Growth Capital: £145 million) and Telecity (Buyouts: £142 million).

As Table 11 shows, 3i has a range of realisation routes and there was a good spread by type of divestment during the year.

Table 9: Realisation by business line (£m)

for the year to 31 March 2010

Total realisations: £1,385 million

Buyouts	467
Growth Capital	578
Infrastructure	46
Non-core activities	294

Table 10: Realisations by geography (£m)

for the year to 31 March 2010

Total realisations: £1,385 million

UK	621
Continental Europe	542
Asia	134
North America	84
Rest of World	4

Table 11: Realisations by type (£m)

for the year to 31 March 2010

Total realisations: £1,385 million

Trade	184
Secondaries	425
Quoted[1]	422
Loan	19
IPO	35
Other	300

[1] Realisations of Quoted investments include trade sales of £145 million.

Financial review

Returns

Gross portfolio return represents the performance of the investment portfolio. Net portfolio return includes additional income generated from managing external funds, through management fees and carried interest receivable, less the costs of our operating expenses and carried interest paid to our investment teams. Finally, total return is the net portfolio return, less our funding costs and the impact of foreign exchange and other factors.
Each of these aspects of our returns is considered in greater detail in this review. Each of these aspects of our returns is considered in greater detail in this review.

Table 12: Total return

year to 31 March	**2010** **£m**	2009 £m
Realised profits over value on disposal of investments	**218**	63
Unrealised profits/(losses) on revaluation of investments	**458**	(2,440)
Portfolio income		
Dividends	**59**	65
Income from loans and receivables	**110**	108
Net fees payable	**(2)**	(2)
Gross portfolio return	**843**	(2,206)
Fees receivable from external funds	**59**	75
Carried interest receivable from external funds	**30**	(3)
Carried interest and performance fees payable	**(88)**	56
Operating expenses	**(221)**	(250)
Net portfolio return	**623**	(2,328)
Net interest payable	**(112)**	(86)
Movement in the fair value of derivatives	**9**	(38)
Net foreign exchange movements	**(35)**	315
Pension actuarial loss	**(71)**	(8)
Other (including taxes)	**(7)**	(5)
Total comprehensive income (“Total return”)	**407**	(2,150)

Table 13: Total return by year

year to 31 March	%
2010	16.2
2009	(53.0)
2008	18.6
2007	26.8
2006	22.5

Total return (%) comprises the total comprehensive income stated as a percentage of opening shareholders’ funds where opening shareholders funds is the weighted average of opening shareholders funds and the equity value following the liquidation of 3iQPEP and the rights issue.

The Group generated a total return of £407 million for the year (2009: £(2,150) million), which represents a 16% return over opening shareholders' funds. Stronger realised profits of £218 million (2009: £63 million) and good growth in the value of the portfolio of £458 million (2009: £(2,440) million) were the main drivers of these returns.

The total return achieved during the year is a significant turnaround from last year and begins to bring the Group back into line with historic return levels as shown in Table 13.

Gross portfolio return

Table 14: Gross portfolio return by year

year to 31 March	%
2010	20.9
2009	(36.7)
2008	23.9
2007	34.0
2006	24.4

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

Gross portfolio return for the year to 31 March 2010 totalled £843 million (2009: £(2,206) million), a 21% return over opening portfolio value (2009: (37)%). Buyouts, Growth Capital and Infrastructure, our core business lines, generated a combined gross portfolio return of £844 million (2009: £(1,763) million), which represented a 24% return on opening portfolio value.

Table 15: Gross portfolio return by business line

	Gross portfolio return		Return as a % of opening portfolio	
	2010	2009	**2010**	2009
year to 31 March	**£m**	£m	**%**	%
Buyouts	**550**	(678)	**38**	(34)
Growth Capital	**194**	(1,035)	**11**	(44)
Infrastructure	**100**	(50)	**27**	(10)
Non-core activities	**(1)**	(443)	**-**	(39)
Gross portfolio return	**843**	(2,206)	**21**	(37)

The Buyouts business performed very well, generating a gross portfolio return of £550 million (2009: £(678) million). This represented a 38% return (2009: (34)%), driven by both strong realised profits and a recovery in the underlying valuations of the portfolio. This included a return of £110 million from the Debt Warehouse, which is accounted for within the Buyouts business line.

Growth Capital also returned to profit, with the majority of portfolio companies performing well. However, the overall return was impacted by significant losses on a small number of investments.

Infrastructure delivered a high return, at 27% (2009: (10)%), driven by the increase in 3i Infrastructure plc’s share price and the growth of the value of the Group’s investment in the 3i India Infrastructure Fund.

Non-core activities generated a return of £(1) million (2009: £(443) million) reflecting the continued disposal of the portfolio at close to its book value.

Realised profits

Overall, the Group achieved realised profits in the year of £218 million (2009: £63 million) at an average uplift to opening book value of 19% (2009: 5%).

Buyouts generated good realised profits of £223 million (2009: £255 million), driven by a strong second half of the year. The sales of Ambea and Telecity generated realised profits over their opening values of £102 million and £47 million respectively.

The Growth Capital business generated realised losses of £(14) million (2009: £(66) million). This included a realised loss on British Seafood of £72 million. The seed portfolio of Growth

Capital investments transferred to the new Growth Capital Fund generated realised profits of £5 million.

Realisations from our non-core portfolio were made at a modest uplift to opening carrying value generating a realised profit of £9 million, a good result given prevailing pricing for sales of private equity portfolios.

Unrealised value movements

The unrealised value movement of £458 million (2009: £(2,440) million) reflects the recovery in asset values during the 12 months to 31 March 2010. The recovery in global equity markets led to an increase in earnings multiples used to value the portfolio. Tough economic conditions throughout the year continued to put pressure on earnings. However, there was some improvement in the underlying earnings of the portfolio in the second half of the year. The methodology applied in valuing the portfolio incorporates the new International Private Equity and Venture Capital ("IPEV") Valuation Guidelines issued in 2009.

Table 16 shows the unrealised value movement for each category of valuation. The most significant category relates to investments valued on an earnings and multiple basis. These accounted for 71% of the portfolio by value at 31 March 2010 (2009: 48%).

Table 16: Unrealised profits/(losses) on revaluation of investments

Unrealised profits/(losses) on revaluation of investments	**2010**	2009
year to 31 March	**£m**	£m
Earnings and multiples based valuations		
Equity - Earnings multiples	**536**	(412)
- Earnings	**(171)**	14
Loans - Impairments (earnings basis)	**76**	(620)
First-time movements from cost	**-**	(584)
Market adjustment to earnings basis	**(8)**	-
Other bases		
Provisions	**(24)**	(156)
Uplift to imminent sale	**(28)**	(140)
Loans – Impairments (other basis)	**16**	(228)
Other movements on unquoted investments	**(16)**	(188)
Quoted portfolio	**77**	(126)
Total	**458**	(2,440)

Impact of earnings multiple movements

The strong recovery in equity markets during the year increased the earnings multiples applied in valuing the portfolio. This contributed £536 million (2009: £(412) million) in unrealised value growth in the equity of those investments that were valued on an earnings basis at both 31 March 2009 and 31 March 2010.

EBITDA multiples were used to value 90% (2009: 79%) of the portfolio valued on an earnings basis as at 31 March 2010. This equates to almost two-thirds of the total portfolio value. The weighted average EBITDA multiple before discount used to value the portfolio was 9.5x at 31 March 2010 (2009: 7.1x).

The 34% increase in multiples used in valuations was lower than the overall equity market increases during the year. This was largely due to the specific company quoted comparables used to determine the appropriate multiple for valuation. Total European mid-cap market weighted average EBITDA multiples increased by 41% to 8.6x at 31 March 2010 from 6.1x at 31 March 2009.

Consistent with IPEV guidelines, we apply a marketability and liquidity discount to each asset in determining the valuation. The weighted average discount applied at 31 March 2010 was 7.4%, resulting in a weighted average EBITDA multiple post discount used to value the portfolio at 31 March 2010 of 8.8x.

Earnings movements

When valuing a portfolio investment on an earnings basis, the earnings used are the most recent management accounts for the last 12 months, unless the portfolio company's forecast is lower or we believe that a lower figure from the latest audited accounts would provide a more reliable picture of maintainable earnings performance.

Maintainable earnings, derived using this methodology, were 8% lower than last year. However, this comprised a 13% decrease in the first half of the year to 30 September 2009 and a 5% increase since September, as many of our companies began to show earnings recovery in the second half of the year. Overall earnings, without the adjustments made to determine maintainable earnings, were down only 5% for the year (based on historical data of all 2009 company year ends) across the core portfolio.

The proportion of accounts used to value the portfolio as at 31 March 2010 was: management accounts 79% (2009: 42%), forecast 14% (2009: 21%) and audited 7% (2009: 37%). The significant reduction in the use of forecast earnings at March 2010, compared to the position at September 2009 (39%), also supports the improved outlook for earnings.

The equity value movement in relation to earnings was a reduction of £(171) million (2009: £14 million). The majority of value reductions continue to be attributable to a small number of companies in sectors and geographies particularly impacted by the economic downturn.

Loan impairments

Where the net attributable enterprise value of a portfolio company is less than the cost of any 3i loans provided, a shortfall is recognised against the value of the loan. This movement is classified as an impairment.

Impairments for the year to 31 March 2010 were a net positive £92 million. This contrasts with an £(848) million unrealised value loss in the year to 31 March 2009. Of the £92 million movement, £76 million is attributed to investments valued on an earnings basis, with £16 million being for investments valued on other valuation bases.

The Debt Warehouse, which is described in detail further on in this review and which includes several impaired loans, generated an improvement in the aggregate value of these impaired loans of £45 million during the year.

At the beginning of the year, there were 31 core portfolio investments that were valued at nil following the full impairment of their loan value. Since March 2009, seven investments, with a total cost of £191 million, returned to a combined positive value of £89 million. Several of these benefited from debt restructuring and a total of £38 million of further investment by 3i. Fourteen investments were either written off or sold. The remaining 10 investments still held at nil value have a residual cost of £122 million.

First time movements from cost and market adjustment

As reported at the time of our results to 31 March 2009, the Group's valuation policy had historically been to value investments that were less than 12 months old at cost. However, given the unprecedented level of volatility at that time, no assets were held at cost at 31 March 2009 and a market adjustment category was introduced. Consequently, this year, there have been no "First time movements from cost". A small unrealised loss of £(8) million is recorded for assets moving from a market adjustment basis to an earnings basis for the first time.

Other bases of valuation

Provisions

A provision is recognised where we anticipate that there is a 50% or greater chance that a company may fail within the next 12 months. Total provisions for the year are below last year at £24 million (2009: £156 million). Provisions do not include assets written off in the year, which are recorded as realised losses. Write-offs for the year totalled £78 million (2009: £18 million).

Uplift to imminent sale

Imminent sale includes all investments currently in a negotiated sales process or for which the proceeds have been received since the year end. Investments valued on an imminent sales basis resulted in an unrealised value movement of £(28) million (2009: £(140) million), largely attributable to the value reduction of a single investment.

Other

The other category, which largely represents investments valued on different valuation bases such as discounted cash flow or an industry specific measure, had an overall value movement of £(16) million (2009: £(188) million).

Impact of adopting new IPEV Guidelines

The updated IPEV Valuation Guidelines, issued in 2009, were incorporated in our valuation methodology for the first time at 31 March 2010. The main change is the assessment and application of the marketability and liquidity discount. The average discount applied in generating our valuations is 11% (Buyouts 5%, Growth Capital 15%). This change in methodology has resulted in a £37 million value increase in the year, 1% of the total portfolio value at 31 March 2010.

Quoted portfolio

The total quoted equity movement for the 12 months to 31 March 2010 was £77 million, which compares to an unrealised value loss of £(126) million for the 12 months to 31 March 2009. At 31 March 2010, the total quoted portfolio was valued at £312 million (2009: £611 million). The significant reduction in the size of the quoted portfolio is largely attributable to the solvent liquidation of 3i Quoted Private Equity plc and the sales of Telecity and Venture Production.

3i's 33% holding in 3i Infrastructure plc was valued at £300 million at 31 March 2010 (2009: £228 million) and accounted for 96% of the total quoted portfolio value. The increase of £72 million in value during the year was as a result of its share price rising from 84p at the start of the year to 110p at 31 March 2010.

Table 17: Proportion of portfolio value by valuation basis (%)

As at 31 March 2010	
Earnings	71
Imminent sale	1
Market adjustment	-
Net assets	1
Quoted	9
Other[1]	18

[1] Other includes industry measures and DCF.

Portfolio income

Table 18: Portfolio income

year to 31 March	**2010** **£m**	2009 £m
Dividends	**59**	65
Income from loans and receivables	**110**	108
Net fees payable	**(2)**	(2)
Portfolio income	**167**	171
Portfolio income/opening portfolio ("income yield")	**4.1%**	2.8%

As can be seen from Table 18, portfolio income for the year to 31 March 2010 was broadly in line with that of the previous year. The yield, at 4.1% (2009: 2.8%), was higher due to a lower opening portfolio value. Due to the high proportion of capitalised interest, total portfolio income received as cash was £73 million (2009: £88 million).

Although lower than the previous year, dividend income of £59 million for the year has benefited from good levels of dividend receipts in the Growth Capital business, and dividends received from 3i's investment in 3i Infrastructure plc.

Net portfolio return

Net portfolio return is an important measure for 3i as it incorporates the economic benefits provided through our asset management capabilities and captures our ability to drive cost efficiency. We will be reporting net portfolio return as a key performance measure from 1 April 2010.

For the year to 31 March 2010, net portfolio return was £623 million (2009: £(2,328) million), or 15% (2009: (39)%) of opening portfolio value.

Net operating expenses (operating expenses less fees receivable from external funds) reduced to £162 million from £175 million in 2009, or 4.0% of opening portfolio value (2009: 2.9%). Dilution from net carried interest was £58 million, or 1.4% of opening portfolio value.

Fees receivable from external funds

Fees receivable from external funds in the year to 31 March 2010 were £59 million (2009: £75 million). The Group received total management and advisory fees from its Buyouts and Infrastructure funds of £56 million (2009: £61 million) and performance fees of £2 million (2009: £8 million).

Fund management fees were lower at £47 million (2009: £53 million) as older funds generated lower fees or reached the end of their fee generating life. Advisory fee income of £9 million is marginally lower than the previous year (2009: £11 million), following the closure of 3iQPEP in 2009. A performance fee is also received from 3i Infrastructure plc, which is based on the net asset value growth per share of the company in excess of an 8% hurdle. During the year, £2 million was recognised (2009: £8 million).

Net carried interest and performance fees payable

By focusing on cash-to-cash returns, carried interest seeks to align 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. 3i receives carried interest from the external funds it manages, whereas 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 and receivable based on both the realised profits generated and unrealised value movements.

Net carried interest and performance fees payable in the 12 months to 31 March 2010 were a cost of £(58) million (2009: £53 million credit). The charge reflects both the uplift over value on realisations, as well as the unrealised value growth in the portfolio in general. In particular, a number of investments made between 2004 and 2006, with strong value increases, are in carried interest schemes which are through the performance hurdle. In addition, the performance of the underlying investments in the 3i India Infrastructure Fund has also been good. The performance fee and a share of the advisory fees generated from 3i Infrastructure plc are payable to 3i investment staff.

The carried interest expense compares with a £53 million credit in the year to 31 March 2009, a consequence of the unrealised losses generated during that period.

Operating expenses

Table 19: Cost efficiency

year to 31 March	**2010** **£m**	2009 £m
Operating expenses	**221**	250
Fees receivable from external funds*	**(57)**	(67)
Net operating expenses	**164**	183
Net operating expenses / opening portfolio ("cost efficiency")	**4.1%**	3.0%

*Net of £2 million performance fee from 3i Infrastructure plc in 2010 (2009: £8 million).

Cost reduction continued to be a priority and the Group achieved a further 12% reduction in total operating expenses to £221 million during the year to 31 March 2010 (2009: £250 million). A key driver of this improvement in operating expenses was a 20% reduction in staff numbers from 607 at the beginning of the year to 488 at 31 March 2010, including the significant reduction in non-core activities. The year on year reduction in underlying costs was 16%.

The Group's cost efficiency measure is defined as operating costs net of management and advisory fee income as a percentage of opening portfolio value. Despite the reduction in operating costs, the lower opening portfolio value from the prior year led to an increase in the measure from 3.0% at 31 March 2009 to 4.1% at 31 March 2010.

During the year the Group reviewed its cost efficiency measures and, as a result we will, in future, also measure and report operating expenses as a proportion of assets under management as a key group financial performance measure. This is aligned to the industry standard measure used in private equity. This new measure was 2.3% for the year to 31 March 2010.

Total return

Net interest payable
Net interest payable increased during the year from £86 million to £112 million. Despite a significant increase in cash balances and deposits during the year, interest receivable of £12 million (2009: £34 million) reduced, given the prevailing low interest rates. Interest payable has increased marginally to £124 million (2009: £120 million) during the year as the Group re-negotiated its facilities and extended maturities.

Exchange movements
The Group continues to use core currency borrowings to hedge the portfolio but has not implemented any additional hedging through derivatives during the year. As a consequence, 76% of European and Nordic euro and krona denominated portfolios and 32% of the North American and Asian US dollar portfolios are now hedged through borrowings. The foreign exchange movement of £(35) million in the year was largely driven by the weakening of the euro and US dollar against sterling in the year.

Pensions
A loss of £71 million in the year to 31 March 2010 (2009: £8 million) relates to the Group's UK defined benefit pension scheme. Rising equity markets in the period resulted in an increase in the value of the plan's assets. However, a fall in corporate bond yields, reducing the discount factor used to determine the present value of the scheme's obligations, and an increase in inflation, has led to an actuarial loss of £49 million. Additionally, the planned closure of the defined benefit pension scheme to future accrual resulted in the recognition of a potential future liability of £22 million.

Portfolio value

Portfolio assets directly owned by the Group
As a result of the good level of realisations in the year, the value of the Group's directly owned investments was lower at £3,517 million (2009: £4,050 million), despite unrealised value growth of £458 million (2009: £(2,440) million). The opening value of investments realised was £1,167 million.

The Buyout portfolio grew in value during the year through unrealised value growth of £249 million as the levels of investment matched the carrying value of assets disposed. The Growth Capital portfolio reduced in size as, despite the transfer of assets from 3i QPEP at the start of the year, the significant levels of asset disposals outweighed the combined increases from investment and value growth. Non core portfolios reduced to £165 million as these portfolios were sold down in the year.

Table 20: 3i direct portfolio value by geography

as at 31 March	**2010** **£m**	2009 £m
Continental Europe	**1,381**	1,618
UK	**1,327**	1,719
Asia	**509**	491
North America	**294**	209
Rest of World	**6**	13
Total	**3,517**	4,050

The proportion of the portfolio value in the UK and continental Europe was lower following strong realisations in these geographies. The portfolio in North America grew as a percentage of the total portfolio due to the increase in the underlying value of investments in this region. A broadly stable portfolio value in Asia over the period led to a slight increase in its proportion of total portfolio value.

Table 21: 3i direct portfolio value by sector

as at 31 March	**2010 £m**	2009 £m
Business Services	**694**	749
Consumer	**303**	327
Financial Services	**335**	265
General Industrial	**1,020**	764
Healthcare	**427**	545
Media	**177**	214
Oil, Gas and Power	**71**	253
Technology	**83**	391
Infrastructure	**407**	371
QPE	**-**	171
Total	**3,517**	4,050

The most significant movements in the value of the portfolio by sector were in General Industrials, Healthcare, Oil, Gas and Power and Technology. General Industrials increased as a percentage of the total portfolio, from 19% to 29% during the year, driven in part by a recovery in performance and resulting increased valuations of a number of investments in this sector.

The largest three realisations in the year, Ambea (Healthcare), Venture Production (Oil, Gas and Power) and Telecity (Technology) resulted in reductions in value in these sectors.

Table 22: Portfolio value movement by business line and vintage year

	Opening Portfolio value 1 April 2009 £m	Impact of 3i QPEP liquidation £m	New investment £m	Value disposed £m	Unrealised value movement £m	Other movement £m	**Closing Portfolio value 31 March 2010 £m**
Core business lines							
Buyouts	1,467	-	243	(244)	249	(101)	**1,614**
Growth Capital	1,574	151	121	(592)	145	(68)	**1,331**
Infrastructure	371	-	2	(46)	84	(4)	**407**
	3,412	151	366	(882)	478	(173)	**3,352**
Non-core activities	638	(171)	20	(285)	(20)	(17)	**165**
Total	4,050	(20)	386	(1,167)	458	(190)	**3,517**

Balance sheet

Table 23: Group balance sheet

as at 31 March	**2010**	2009
Shareholders' funds	**3,068**	£1,862m
Net debt	**£258m**	£1,912m
Gearing	**8%**	103%
Diluted net asset value per share	**£3.21**	£2.79[1]

[1] Adjusted to reflect the impact of the rights issue and shares issued as part of the acquisition of the assets of 3i QPEP.

Gearing and borrowings

The Group made significant progress in strengthening its balance sheet by reducing net debt from £1.9 billion at 31 March 2009 to £258 million at 31 March 2010. Several factors, including the £732 million rights issue in June 2009, strong realisations from the core portfolio, as well as the continued sale of quoted and non-core investments, contributed to the reduction in net debt. The reduction in net debt, combined with an increase in shareholders' funds to £3,068 million, reduced gearing to 8% at 31 March 2010 from 103% at the start of the year.

The Group's focus on the management of the overall gross debt position, and the extension of its maturity profile, has also resulted in changes to the overall composition of the Group's borrowings during the year. In some cases this has meant issuing new debt ahead of a maturity.

The Group refinanced its revolving credit facilities during the year and replaced its £150 million multicurrency bilateral facility with a new £100 million facility, extending its maturity to autumn 2012. A £300 million forward start facility was agreed during the year. This extends the maturity of the existing £486 million facility to October 2012. In addition, the Group has agreed a further multicurrency revolving credit facility (a five year £200 million bilateral facility) which commenced in November 2009 and matures in November 2014.

As a result, facilities previously due within the year from 31 March 2010 have been extended and will mature within the next three years, and long-term debt repayments due within one year are reduced to £33 million.

In March 2010, the Group issued a €350 million bond at 5.625% with a seven year maturity, which enabled the Group to further extend the maturity profile of its debt at attractive terms, ahead of the £430 million convertible bond coming due in May 2011. After the year end, the Group announced that it has made market purchases of the convertible bond. At the end of April, purchases of a total of £145 million had been made. The purchased bonds will be cancelled and, following cancellation, there will remain £285 million in convertible bonds outstanding.

Liquidity

Liquidity at 31 March 2010 increased significantly to £2,732 million from £1,020 million at 31 March 2009, and comprises £2,253 million of cash and deposits and undrawn facilities of £479 million. This increase resulted from cash generated from realisations, the rights issue and new debt issuance.

Diluted NAV

The diluted NAV of £3.21 at March 2010 (2009: £4.96, restated: £2.79) includes the impact of the rights issue and 3i Quoted Private Equity plc transactions. The rights issue diluted net asset value per share by 194p. The liquidation of 3i Quoted Private Equity plc had a further 23p reduction in net asset value per share as new shares were issued to partially fund the transaction. The total return of £407 million added 43p per share to net asset value.

Business lines

Buyouts

Business model
3i's mid-market Buyouts business is focused on leading or co-leading mid-market buyout transactions in companies with an enterprise value typically of up to €1 billion.

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 external funds which we manage alongside 3i's own balance sheet commitments.

The 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.

Our investment criterion 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. Our active partnership approach systematically seeks to identify, implement and realise opportunities for value growth and operational improvements in each portfolio company.

As at 31 March 2010, for the 66 investments made since 1 January 2001 that have been 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 market
The 2009 calendar year saw a low level of new deal activity as the buyout market struggled to recover from the debt crisis and from the ongoing effects of a recessionary environment. In Western Europe there were 54 reported new buyout transactions of a deal size between €100 million and €1 billion (source: unquote/3i). This was significantly down on the market peak in the 2007 calendar year of 233 transactions.

Activity levels did start to pick up in the second half of 2009 and this trend has continued into 2010, with 18 transactions announced in the quarter to 31 March 2010 (source: unquote/3i; preliminary data). There remains significant amounts of undrawn private equity capital in funds raised since 2006. This has kept competition and pricing levels high for the lower levels of new deals coming to the market. The first quarter of 2010 has also seen some signs of improved exit activity returning to the market.

The leverage market has significantly improved over the last 12 months, but the availability of credit remains some way short of its pre-debt crisis peak. Some underwriting capacity has returned, and deals over €1 billion can now be financed, provided they meet a more disciplined approach to credit assessment and pricing. The number of active providers of leverage for buyout transactions remains relatively low, although some new entrants have come into the market.

In-house banking expertise therefore remains critical to managing banking relationships, both for completing new deals and for the ongoing management of existing portfolios. Increased regulation, combined with a number of other structural factors such as sovereign debt levels and refinancing profiles in existing corporate debt structures, are likely to present an ongoing mix of opportunity and risk.

New buyout funds announced in 2009 raised €69 billion globally, significantly down on the €146 billion announced in 2008 (source: Preqin). Most industry commentators are expecting 2010 to remain a difficult environment for raising new funds. Many limited partners continue to have significant undrawn commitments to existing funds, while some have also scaled back the number of general partners they are prepared to invest with going forward. The time and effort necessary to raise new money has increased as limited partners have increased their due diligence requirements before they are prepared to commit fresh capital.

Looking forward to the next financial year, we expect ongoing change to our market environment, as some uncertainty remains over the wider economic outlook. Although competition levels are likely to remain high, we anticipate that there will be more opportunities to originate attractive new investments than we have seen in the last 12 months, although this may not materialise in the near term.

Priorities and opportunities for 3i

The main priorities for the Buyouts business line are to originate and invest in attractive new investment opportunities, to maximise the returns generated from the existing portfolio and to prepare for the next stage of fundraising.

We are well placed to identify attractive investment opportunities, often ahead of the wider market, through the combination of our brand, network, sector expertise and geographic presence in our chosen markets. This should position us favourably relative to the competition.

We aim to continue to improve the operational efficiency of our portfolio companies through our active partnership approach, driving growth in the underlying earnings.

Our current portfolio companies have considerable potential for growth. Where appropriate, we will make further investments in the portfolio to enhance its overall return potential.

We will divest those portfolio companies where our value plan has been substantially delivered and where good terms can be achieved in the current market environment.

Finally, we will continue to develop proactively our limited partner relationships for future new funds.

Investment activity

Table 24: Buyouts investment and realisations

year to 31 March	**2010** **£m**	2009 £m
Realisation proceeds	**467**	494
Investment	**(243)**	(519)
Net divestment/(investment)	**224**	(25)

Realisation proceeds of £467 million were generated in the year to 31 March 2010, compared to £494 million in the prior year. The principal realisations included the sale of Ambea, generating proceeds of £212 million, and the sale of our remaining holdings in Telecity, generating proceeds of £142 million, and Dockwise, generating proceeds of £27 million.

No new investments were completed during the year. Although general market activity was low, we did review a number of potential transactions, but ultimately decided not to pursue these. The signing of Vedici, a French acute healthcare provider, was announced in March

2010, however the completion of this transaction remains subject to competition clearance. It is therefore not included in the results to 31 March 2010.

Of the £243 million of gross investment in the year, £42 million was invested in the Debt Warehouse, £52 million was used to support portfolio companies either through investing into a new capital structure following a balance sheet restructuring, targeted equity cures, buying debt below par or supporting capital expenditure, and £12 million was used to support acquisitions made by our portfolio companies in the year. The remaining £137 million of gross investment in the year was capitalised interest.

Performance

Gross portfolio return

Table 25: Returns from Buyouts

year to 31 March	**2010** **£m**	2009 £m
Realised profits over value on the disposal of investments	**223**	255
Unrealised profits/(losses) on the revaluation of investments	**249**	(995)
Portfolio income	**78**	62
Gross portfolio return	**550**	(678)
Gross portfolio return %	**38%**	(34%)
Fees receivable from external funds	**39**	45

The Buyouts portfolio has generated a strong gross portfolio return of £550 million, or 38% of opening portfolio value (2009: £(678) million loss, (34)%).

Realised profits of £223 million in the year were driven principally by the sale of Ambea, which generated profits of £102 million, representing a 93% uplift over its March 2009 valuation, as well as by good uplifts on the realisations of Telecity and Dockwise, which generated realised profits in the year of £47 million and £10 million respectively.

The unrealised value gain of £249 million was underpinned by a robust performance across the portfolio, with the majority of portfolio companies growing in value.

Portfolio income of £78 million in the year was largely attributable to accrued interest and was higher than in 2009, principally due to a lower level of provisions required against this income.

The gross portfolio return of £550 million includes a £110 million contribution from the Debt Warehouse. Further details on the performance of the Debt Warehouse can be found further on in this review.

Portfolio performance

The performance of the portfolio has stabilised in the year, with the second half showing a more encouraging trend.

We have continued to work proactively to improve the operational effectiveness of many of our portfolio companies through our active partnership approach. During the period, our portfolio companies grew their margins in aggregate across the portfolio, despite many facing weaker market conditions.

The improvements to their operating models should position these portfolio companies well to capitalise on improved market conditions in the future.

Portfolio earnings
For 2009 portfolio company year ends, aggregate earnings in the year decreased by 9% on 2008 portfolio company year end levels. This is a reflection of the tougher trading environments experienced in much of 2009. However, many of our portfolio companies saw improved performance starting to come through in the final quarter of 2009 and this has continued into 2010.

Portfolio leverage
Financing structures 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 underlying portfolio companies, committed working capital facilities are typically in place.

Underperformance in an investment can trigger a covenant breach on a loan, which may imply that a loan requires refinancing earlier, if an agreement over the effect of the breach cannot be reached with the loan providers.

As at 31 March 2010, we were in negotiations with the loan providers of seven portfolio companies, as a result of covenant breaches up to that date (2009: 16 portfolio companies).

Of these seven portfolio companies, four are ongoing cases from 31 March 2009. These four are smaller, older investments – their total gross investment cost is £30 million and each is over five years old. Although their underlying performance is such that they remain in breach of covenants, for each of these cases we have agreed a stand still agreement with the respective lenders to enable us to work through turnaround plans to improve their performance.

Of the remaining 12 portfolio companies that were in breach of covenants at 31 March 2009, 10 have either undergone a successful restructuring, or have received “equity cures” to solve the covenant breach, and have subsequently seen an improvement in performance.

Two investments that were in breach of covenants at 31 March 2009, Global Garden Products (“GGP”) and Ultralase, were written off during the year. Both were valued at £nil at 31 March 2009, hence their write-offs did not have an impact on the gross portfolio return for the year to 31 March 2010. In both cases 3i held extensive negotiations with senior lenders, proposing to inject new equity to reduce the overall levels of leverage. These proposals were refused by the lenders, which decided instead to take the two assets under direct ownership.

The three new portfolio companies that breached covenants during the year had an aggregate cost of £132 million, but were valued at £4 million as at 31 March 2010. In each case, discussions with lenders remain ongoing, and we continue to work towards solutions with the assistance of our in-house banking team.

Portfolio health
The year to 31 March 2010 saw a significantly lower level of negative value movements compared to the prior year. Write-offs in the year had £nil impact on gross portfolio return, as the gross investment cost that had been written off during the year of £347 million had already been valued at £nil at 31 March 2009.

At 31 March 2010, 65% of the portfolio based on cost was classified as “healthy”; an improvement from the 60% recorded at 30 September 2009 and broadly in line with the position at 31 March 2009 (67% healthy). Investments are only moved back to “healthy” status when their performance and valuation demonstrates that a recovery of our invested capital is probable.

Portfolio valuations

The unrealised value growth in the Buyouts portfolio in the year to 31 March 2010 was £249 million (2009: £(995) million loss). This positive value uplift was driven principally by an increase in the multiples used to value portfolio companies, as well as by the portfolio's underlying earnings performance in the second half of the year.

At 31 March 2010, 92% of the Buyouts portfolio (excluding the Debt Warehouse) was valued on an earnings basis. The weighted average EBITDA multiple pre discount was 9.1x and the ratio of net debt to EBITDA was 4.5x for these companies.

The positive valuations movement was stronger in the second half than in the first half of the year. Value growth totalled only £8 million in the first half, compared to £196 million in the second half (excluding the Debt Warehouse).

The three largest contributors to the overall value growth during the year were Norma (£57 million), Axellia (£51 million) and MWM (£39 million). The largest negative value movement was Eltel (£(45) million).

This £249 million uplift includes a value recovery of £45 million on the Debt Warehouse, which had been valued at £nil at 31 March 2009 on a first loss mark-to-market basis.

Long-term performance

Table 26 shows the performance of each vintage year since 2002 to 31 March 2010. The vintages to 2007 continue to show IRRs above 20%. The IRR of the 2006 vintage has increased to 49% (2009: 46%) due to the successful realisations of Ambea and Telecity in the year to 31 March 2010.

The IRR of the 2008 vintage, which included GGP and Ultralase, remains negative, albeit it had improved to (18)% at 31 March 2010 from (30)% at 31 March 2009. The improvement in performance over the year to 31 March 2010 was largely due to increases in the valuations of Inspicio, MWM and Scandlines.

The 2009 vintage, although still relatively immature, recorded a 9% IRR to 31 March 2010, with Axellia and LHi being the two largest contributors to this performance to date.

Table 26: Long-term performance – Buyouts

New investments made in the financial years ended 31 March

Vintage year	Total investment[1] £m	Return flow £m	Value remaining £m	**IRR to 31 March 2010**	IRR 31 March 2009
2010	-	-	-	**-**	-
2009	359	1	365	**9%**	n/a
2008	682	20	381	**(18)%**	(30)%
2007	612	321	507	**25%**	25%
2006	508	1,137	48	**49%**	46%
2005	372	953	90	**62%**	62%
2004	330	523	108	**34%**	34%
2003	277	664	21	**49%**	49%
2002	186	441	-	**61%**	61%

Analysis excludes investment in Debt Warehouse.

[1] Total investment includes capitalised interest.

Portfolio composition

As can be seen from the tables below, the Buyouts portfolio is well diversified by sector and geography, both by value and by number of portfolio companies. The value of our 46 investments at 31 March 2010 was £1,614 million (2009: £1,467 million). The three largest investments by valuation at 31 March 2010 were Inspicio (£147 million), Enterprise (£144 million) and MWM (£127 million).

Fund management

The latest Buyouts fund, Eurofund V, a €5 billion fund which was raised in November 2006, was 54% invested as at 31 March 2010, compared to 53% invested at 31 March 2009. During the year, Eurofund V sold its remaining holding in Dockwise, generating a 2.1x money multiple over the life of the investment.

Eurofund IV, which had its final close in 2004, continues to perform strongly. At 31 March 2010 the fund portfolio had generated 1.88x of its gross commitments, up from 1.76x at 31 March 2009, driven by the realisations of Ambea and Daalderop in the year.

Eurofund III, a 1999 vintage fund, is almost fully realised, with only five assets remaining. There were no realisations from the fund in the year and at 31 March 2010, the fund portfolio had generated 1.89x of its gross commitments, in line with its position at 31 March 2009.

Fee income from managed funds totalled £39 million in the year (2009: £45 million), underpinned by fee income from Eurofund V.

As can be seen from Table 27, there is a diverse mix of investors in 3i's buyout funds.

Table 27: Buyout investor base for non-listed funds managed and advised by type of investor (%) as at 31 March 2010

Pension funds	31
Fund of funds	25
Insurance companies	19
Financial institutions	10
Government agencies	10
Endowments	4
Private individuals	1

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. Investments are made through a Debt Warehouse facility, provided by Lloyds Bank. This facility was recently renewed, and now matures in October 2012. There was an increase in the first loss percentage to 40% (previously 30%) and a reduction in the facility size to €325 million (previously €550 million). 3i has committed up to €130 million on a first loss basis.

As at 31 March 2010, the Debt Warehouse had invested €259 million of which 3i's commitment was €103 million. The credit quality of the portfolio is satisfactory and is focused on a diversified portfolio of large businesses in diversified sectors. As at 31 March 2010, the Debt Warehouse was in full compliance with all its covenants.

During the financial year, the total size of the underlying portfolio of the Debt Warehouse was reduced from €445 million to €259 million, as we took advantage of rising secondary loan pricing to sell out of loans at a profit.

The impact of the Debt Warehouse on 3i's financial results in the year to 31 March 2010 was realised profits of £55 million (2009: nil), unrealised value growth of £45 million (2009: unrealised loss of £(112) million) and income and fees of £10 million (2009: £4 million).

Growth Capital

Business model
3i's 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 mainly international businesses.

The Group's international presence, sector knowledge, networks and broader resources create the premium market access to companies that are "not for sale". Over the last three years, 65% of the new investments completed have been proprietary. These resources also provide the ability to benchmark investment opportunities globally, match resources to opportunities on a "best team for the job" basis and to work actively with high-growth companies to maximise value through a mix of capital realisations on exit and portfolio income.

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.

3i has historically carried out its Growth Capital activity using own balance sheet funds, and has not in the past managed external funds. In March 2010, however, the Group announced the closure of its first Growth Capital Fund, raising €1.2 billion, including €800 million of commitments from 3i and €392 million from external investors. This fund was seeded with a portfolio of seven investments, worth €339 million from the Group's current balance sheet, allowing external investors to have immediate exposure to this growing segment of the private equity market from the outset of the Fund. This enhances returns to 3i Group through management fees and carried interest. All new Growth Capital investments will be made through this Fund.

An important aspect of our business model is the way in which we generate 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. Systemic multiple enhancement on realisation in Growth Capital portfolio companies is driven by three factors: improvement in the strategic positioning of portfolio companies; professionalising businesses, making what was "hard to buy, easy to sell"; and the fact that whilst investments are made on minority valuations, exits tend to occur when a majority of the company is sold or listed.

The portfolio is well diversified by geography and sector and has a low reliance on leverage to produce returns.

The market
Activity levels in the global growth capital markets were exceptionally low in 2009 compared to recent years. The number of growth capital transactions completed in Europe in 2009 fell to just over 50 in 2009, compared to nearly 250 in 2007, with no change in the average transaction value. The trend in North America and Asia was similar.

However, we expect activity levels in the growth capital market to materially increase in 2010. With the availability of credit remaining subdued, the growth capital approach to investing – with its emphasis on lower leverage and value adding partnership – is ideally suited to the current environment, and we have seen it grow its share of the private equity market over the course of the year.

We have already seen an increase in deal activity over the last six months, as entrepreneurs and business owners regain their appetite for expansion and value creation, shifting their focus away from business preservation as economies stabilise and recover.

The current economic environment will also provide the opportunity to invest in buy-and-build situations, employing slightly higher leverage, as market leading businesses target competitors weakened by the economic crisis.

The market for raising new funds was challenging in 2009, with many limited partners continuing to have significant undrawn commitments to existing funds. However, within this context, there has been an increase in industry comment on growth capital and it is a segment of the private equity market which, due to its low reliance on leverage, is attracting more limited partner attention.

Priorities and opportunities for 3i

Having raised a new Growth Capital Fund, origination and new investment is a key area of focus for our team. From a competitor perspective, Growth Capital is an ill-defined and poorly addressed market. Our specialisation of investing in businesses “not for sale”, combined with our strong brand and international presence, positions us well against competitors with a broader remit. We focus on maintaining a strong network of relationships with entrepreneurs and their advisors in our chosen markets to ensure investment will continue to be selective.

However, we will continue to invest selectively to ensure optimal returns for 3i and for the investors in our Fund.

Our investment strategy has been tightened to focus on a smaller subset of investment types, which allow us to work in partnership with entrepreneurs to drive value creation via earnings growth. As part of this strategy, we will continue to explicitly avoid investments which do not ensure alignment with management and other shareholders, where we would hold a public equity investment at the outset or where we were investing in a fund or project structure.

We aim to drive future returns from the existing portfolio through our active partnership approach and the implementation of operational improvements in portfolio companies. We expect that the focus of these initiatives will change during 2010 to support revenue growth projects, including funding acquisitive growth, where appropriate, as well as continuing to drive efficiency in the portfolio.

The newly raised Growth Capital Fund will provide additional capacity to continue 3i’s existing Growth Capital strategy of making minority investments in growing businesses across Europe, Asia and North America. The Fund will make investments of €25 million to €150 million in around 20 mid-market companies.

Investment activity

Table 28: Growth Capital investment and realisations

year to 31 March	**2010** **£m**	2009 £m
Realisation proceeds	**578**	461
Investment	**(121)**	(343)
Net divestment/(investment)	**457**	118

The Growth Capital business line adopted a cautious and selective approach to investment during the past year. A modest amount of £121 million was invested in the 12 months to 31 March 2010, compared to £343 million in the year to March 2009.

Of this amount, £21 million was invested in Refresco – the only new investment to be completed this year, and the first new investment made since the launch of the Growth Capital Fund. The transaction, announced on 25 March 2010, involved the acquisition of newly issued shares in Refresco, representing 20% of the share capital of the company and a commitment to invest up to a further £26 million. Refresco, a European market leader in the production of private label fruit juices and soft drinks, will use the funds to pursue its buy-and-build growth strategy. This marks the second time that 3i has invested in Refresco, having supported a management buyout in 2003. After a period of active management, geographic expansion and significant profitable growth for the company, 3i generated an excellent return on its investment in Refresco when it was sold in April 2006.

The balance of £100 million was invested in the existing portfolio (2009: £137 million), of which £5 million was to support acquisitions (2009: £86 million), £16 million was working capital to fund further growth (2009: £26 million), and £33 million was in support of strong businesses which were adversely impacted by the economic downturn (2009: £21 million). The balance of the investment into the portfolio related to non-cash, capitalised interest on loans held by 3i.

The pipeline of investment opportunities has been improving steadily over the past six months, and we expect investment activity to increase over the coming year.

Realisation activity was strong and ahead of last year. Realisation proceeds of £578 million were generated during the year from 42 exits (2009: £461 million, 39). We have continued to focus on the sale of older, non-core investments which diluted the overall return of the portfolio, while at the same time opportunistically exiting larger investments where attractive returns can be generated, such as PCD, DNA and Venture Production. Additionally, we sold a share of seven investments to new investors in the Growth Capital Fund generating £96 million of proceeds.

The sale of Venture Production, a listed, UK-based oil and gas company, was the largest realisation in the year, generating proceeds of £145 million and realised profits of £4 million over the 31 March 2009 value.

Performance

Gross portfolio return

Table 29: Returns from Growth Capital

year to 31 March	**2010** **£m**	2009 £m
Realised (losses)/profits over value on the disposal of investments	**(14)**	(66)
Unrealised profits/(losses)on the revaluation of investments	**145**	(1,029)
Portfolio income	**63**	60
Gross portfolio return	**194**	(1,035)
Gross portfolio return %	**11%**	(44)%
Fees receivable from external funds	**-**	1

The Growth Capital business line generated a gross portfolio return of £194 million in the year to 31 March 2010, or 11% of opening portfolio value, compared to £(1,035) million, or (44)%, in the year to 31 March 2009.

While the majority of portfolio companies have performed well and earnings at an aggregate level were stable, the overall return for the year was materially impacted by large losses on a small number of investments and the ongoing priority to realise non-core and legacy investments.

The main contributor to the gross portfolio return was the impact of unrealised valuation movements of £145 million. The unrealised value gain was driven principally by multiple expansion, with the average multiple (before discount) up from 7.4x in 2009 to 10.3x in 2010, while underlying earnings were down only marginally by 2% year-on-year.

Realised losses of £14 million for the year to 31 March 2010 were lower compared to last year (2009: £(66) million) and reflect a small number of large realised losses, as well as our continued priority to pursue exits of our non-core and legacy portfolio.

The placing of UK-based fish importer British Seafood into administration in February 2010 crystallised a loss of £72 million, while the sale of the Korea Global Fund, a Korea-based investment vehicle, crystallised a loss of £27 million. These losses, however, were offset by realised gains of £22 million, £24 million and £17 million on the sales of PCD Stores, Welspun and DNA respectively.

Portfolio income of £63 million for the year to 31 March 2010 was broadly in line with last year (2009: £60 million), but benefited from a special distribution from Quintiles of £23 million following a strong trading performance and debt raising in 2009.

Portfolio performance

The portfolio performed well in the year, with EBITDA down only (2)% in a challenging environment.

We have worked to improve the earnings with many of our portfolio companies using our active partnership approach to focus on operational efficiency.

Leverage across the portfolio has increased marginally to 2.2x EBITDA (2009: 2.0x EBITDA) as earnings have stayed flat and companies have taken on debt to pursue buy-and-build strategies. In addition, we have exited a number of larger, lower debt, investments.

Valuations have recovered strongly in the second half of the year, primarily due to the global market recovery and associated impact on the multiples we use to value the portfolio.

Portfolio earnings
For 2009 company year ends, aggregate earnings in the portfolio were greater than £1.5 billion and were down only marginally (by 2%) on prior year levels. This minor fall in aggregate earnings was attributable principally to a reduction in margins, which was offset almost entirely by improvements to operational effectiveness from initiatives implemented by 3i and management teams across the portfolio.

We expect 2010 to be a more positive year for company earnings, with a return to revenue growth and stabilising margins expected for almost all of the companies in the portfolio.

Portfolio leverage
In line with the Growth Capital business model, leverage is low across the portfolio. The average entry level of debt on new investments over the last five years has been 1.7x EBITDA. The current debt across the portfolio is marginally higher at 2.2x 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 the business, international profile, and the phase of development.

Portfolio health

The year to 31 March 2010 saw a significantly lower level of negative value movements compared to the prior year. However, we experienced a small number of significant deteriorations in performance resulting in write-offs, the largest being the placing of British Seafood into administration in February 2010.

Write-offs in the year had a £(72) million impact on gross portfolio return (2009: £(2) million).

As at 31 March 2010, 74% (2009: 81%) of the portfolio was classified as healthy, based on cost. This reduction in the health of the portfolio reflects the harsher trading environment seen during the course of 2009. We would expect this to improve in 2010 as the economy recovers.

Portfolio valuations

The improvement in global equity markets over the year has helped generate value growth of £145 million (2009: £(1,029) million loss) as the majority of the portfolio is valued with reference to an external benchmark (typically EBITDA multiples).

Earnings in the portfolio, at an aggregate level, were stable overall at (2)%, in line with expectations.

The average multiple used to value investments which were valued on an earnings basis at 31 March 2010 was 10.3x, a 39% improvement from the 7.4x used at 31 March 2009.

The three largest increases in value in the year were Mold-Masters (£53 million), Quintiles (£51 million) and Navayuga Engineering (£41 million).

Long-term performance

The Growth Capital long-term performance improved for the more recent vintages of 2008 and 2009, while the more mature vintages remained in line with last year.

The improvement in performance for the more recent vintages was due to improved valuations and strong realisations in the year. However, we do not expect these vintages to achieve the returns seen in earlier years, as they have been more heavily impacted by the current economic conditions.

The IRR of the 2008 vintage, which includes British Seafood, remains negative, albeit improving to (3)% at 31 March 2010 from (16)% at 31 March 2009. The improvement in performance over the year to 31 March 2010 was largely due to increases in the valuations of Mold-Masters and Quintiles and to the realised profit achieved on the sale of Welspun, offset by the loss on British Seafood.

Table 30: Long-term performance – Growth Capital

New investments made in the financial years to 31 March

Vintage year	Total investment[1] £m	Return flow £m	Value remaining £m	**IRR to 31 March 2010**	IRR to 31 March 2009
2010	21	-	21	**n/a**	n/a
2009	208	42	144	**(7)%**	n/a
2008	1,042	394	557	**(3)%**	(16)%
2007	553	185	342	**(2)%**	(2)%
2006	443	594	89	**24%**	23%
2005	179	250	48	**25%**	27%
2004	297	487	13	**25%**	25%
2003	231	411	31	**24%**	25%
2002	498	716	6	**12%**	12%

[1] Total investment includes capitalised interest.

Portfolio composition
The Growth Capital portfolio is well diversified by sector and geography, both in terms of value and number of portfolio companies.

The total book value of our 67 investments as at 31 March 2010 was £1,331 million (2009: £1,574 million).

The largest three investments are the Group's investments in ACR Capital Holdings Pte Limited (£149 million), Quintiles (£128 million), and Foster + Partners (£113 million).

Fund management
Historically, 3i's Growth Capital investments have typically been funded through the balance sheet, with limited external funds involved. However, on 25 March 2010, 3i announced the closing of its first Growth Capital Fund, at €1.2 billion. 3i committed €800 million to the Fund, while investors from Asia, Europe, the Middle East and North America committed €392 million to the Fund. As part of its €800 million commitment, 3i contributed a seed portfolio of seven investments valued at €339 million being all new investments made since 1 January 2008 remaining in the portfolio. Of this, £96 million was the proportion sold to new investors.

The Growth Capital Fund will continue 3i's existing Growth Capital strategy and make minority investments in growing businesses across Europe, Asia and North America. The Fund will invest in around 20 mid-market companies, typically investing €25 million to €150 million of equity.

Table 31: Growth Capital investor base for non-listed funds managed and advised by type of investor (%) as at 31 March 2010

Government agencies	61
Pension funds	23
Insurance companies	13
Financial institutions	3

Infrastructure

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 Europe, India and North America and a sectoral focus on the utilities, transport and social infrastructure sectors.

Infrastructure investments are made through two vehicles: 3i Infrastructure plc, a global infrastructure fund listed in London, and through the 3i India Infrastructure Fund, a limited partnership focusing on investing in Indian infrastructure.

Priorities for 3i

We aim to strengthen our position as a leading participant in the infrastructure market through the ongoing investment of our funds in a portfolio of robust assets, which will continue to generate attractive returns for shareholders and limited partners.

We will maintain a rigorous investment approach, using our proprietary sector knowledge and our broad network of contacts in our chosen sectors and geographies to originate transactions that contribute to the delivery of the return objectives of the two funds advised or managed. This will be key in positioning the business line for future fundraisings.

Managing the existing portfolio to generate attractive returns will also remain a priority for the Infrastructure team. The assets in the two funds are performing well, and the team's portfolio management expertise, as well as the broader resources of 3i Group, will be leveraged to continue to drive value from those assets.

Opportunities for 3i

3i is well positioned in the infrastructure market, with a strong brand and robust track record of generating attractive returns through 3i Infrastructure plc and through the 3i India Infrastructure Fund.

The 3i India Infrastructure Fund, a US$1.2 billion fund is 42% invested and has a strong pipeline of investment opportunities. The macroeconomic outlook in India is favourable, with strong projected growth, and the fundamentals for infrastructure investment remain attractive, with the current infrastructure deficit in the country providing significant opportunity for private investment. Our team on the ground in India has a well-established presence in the market, with a broad network of contacts and an agreement with the India Infrastructure Corporation Ltd providing access to a wide range of opportunities. The undrawn funds committed to the 3i India Infrastructure Fund are likely to be deployed over the next 12 to18 months, which could present an opportunity to raise a successor fund should market conditions allow.

Conditions for investment are improving more gradually in developed markets, however the opportunity for infrastructure investment is significant, driven by balance sheet restructuring and the sale of non-core assets in the private sector, and by budgetary constraints in the public sector. The Infrastructure team is building up the pipeline of investment opportunities submitted to 3i Infrastructure plc, which currently has ample liquidity to invest in new assets.

The market

Infrastructure market activity slowed down considerably in 2008 and 2009, with many market participants unwilling to transact due to significant pricing volatility and market instability, as well as the uncertain macroeconomic outlook.

The market for infrastructure investment, however, is improving, and 2010 should see a pick up in activity. Asset prices are stabilising, the macroeconomic outlook is increasingly positive and a return to growth should have a positive impact across the asset class, and in particular on more pro-cyclical sectors such as transport, which should benefit from demand growth.

As many governments have had to intervene heavily in the economy to avoid a recession, budgetary constraints should result in new private investment in new infrastructure, as well as in the privatisation of existing state-held infrastructure assets. Opportunities for investment should also arise from the private sector, where the necessity to restructure balance sheets is likely to result in the divestiture of non-core assets from certain banks and large corporates.

The competitive environment remains relatively benign since the market shake out of 2008/2009. While there are still significant undrawn funds available for investment, the increasing importance of operational expertise in managing infrastructure assets is posing a significant barrier to entry for emerging players.

3i Infrastructure plc
3i holds a 33.2% investment in 3i Infrastructure plc, which is an investment company listed on the London Stock Exchange and a component of the FTSE 250. The company raised £703 million at IPO in 2007 and £115 million through a subsequent Placing and Open Offer in July 2008.

3i Infrastructure plc is based in Jersey, is governed by an independent board of directors, and targets a 12% net return through NAV growth, of which 5% is returned to shareholders through dividends.

3i Group plc, through 3i Investments plc, a wholly-owned subsidiary, acts as investment adviser to 3i Infrastructure plc and in return receives an annual advisory fee of 1.5% of the invested capital (excluding cash balances) 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 has its own dedicated investor relations website, www.3i-infrastructure.com.

3i India Infrastructure Fund
The 3i India Infrastructure Fund is a $1.2 billion limited partnership fund established by 3i to invest in Indian infrastructure, with a particular focus on ports, airports, roads and power assets. 3i and 3i Infrastructure plc each have a $250 million commitment to the Fund.

The Fund closed in March 2008 with a target investment horizon of two to four years and, as at 31 March 2010, had invested 42% of total commitments.

3i earns management fees and carry from all limited partners in the Fund, with the exception of 3i Infrastructure plc.

Table 32: Investor base for 3i India Infrastructure Fund by type of investor (%)

Pension funds	40
Government agencies	33
Fund of funds	17
Other	7
Financial institutions	2
Endowments	1

Other Infrastructure assets

Over the year, 3i Group has continued to reduce its holdings in infrastructure assets held directly on its own balance sheet. 3i Group's holding in 3i Osprey LP, the vehicle through which 3i Group and 3i Infrastructure plc own their stake in AWG, was further reduced in the year, resulting in a total portfolio held directly by 3i of £6 million (excluding the Group's holdings in 3i Infrastructure plc and the 3i India Infrastructure Fund).

Performance

Gross portfolio return and fee income

Table 33: Returns from Infrastructure

year to 31 March	**2010** **£m**	2009 £m
Realised profits/(losses) over value on the disposal of investments	**-**	(20)
Unrealised profits/(losses) on the revaluation of investments	**84**	(62)
Portfolio income	**16**	32
Gross portfolio return	**100**	(50)
Gross portfolio return	**27%**	(10)%
Fees receivable from external funds	**20**	26

The infrastructure business line generated a gross portfolio return of £100 million in the year to 31 March 2010 (2009: £50 million loss). The return was determined by a strong unrealised value gain of £84 million (2009: £62 million loss) and strong portfolio income of £16 million (2009: £32 million).

The unrealised value gain was driven principally by the strong mark-to-market gain on the Group's holding in 3i Infrastructure plc, which was up 32% year on year, generating an unrealised gain of £72 million (2009: £74 million loss). The remainder of the unrealised gain is attributable in large part to the £10 million revaluation of the holding in the 3i India Infrastructure Fund (2009: £14 million).

Portfolio income of £16 million was down year on year, as the 2009 figure included a special dividend received from AWG. 3i Group's direct holding in AWG has now been substantially divested. Dividends received on the holding in 3i Infrastructure plc were up marginally compared to last year.

Fees receivable from 3i Infrastructure plc and the 3i India Infrastructure Fund amounted to £19 million, broadly in line with 2009.

Investment and realisations

The infrastructure business line invests principally through 3i Infrastructure plc and the 3i India Infrastructure Fund. Both vehicles invested cautiously during the year, reflecting the volatile market environment and a decline in overall transaction volumes in the infrastructure market.

The 3i India Infrastructure Fund drew £2 million from 3i Group to fund a small additional investment in Adani Power Private Limited, one of its holdings, ahead of its IPO in August 2009.

Risk

This section provides a review of the evolution and management of the Group's key risks during the year, together with a description of the main inherent risk factors facing the Group. This is followed by an overview of the main elements of 3i's risk governance framework.

Further details on the management of key risks, and related results and outcomes, can be found in the relevant section on risk factors.

Review of risks

External

The key external risks identified by the Group at the start of the financial year fell into three broad categories: the impact of the continuing adverse market and economic conditions; the wider reputational impact on the financial services sector of the banking and financial crisis; and the potential for wide-ranging regulatory changes.

The current market and economic uncertainty continues to impact the market in which 3i operates in a number of ways. Fundraising conditions, for example, remain challenging and investors have become more discerning. Notwithstanding this background, 3i successfully closed its first Growth Capital Fund in March 2010.

The lack of M&A activity over the past 18 months combined with a private equity funding overhang and improved debt terms have tended to fuel high prices for transactions. These market imbalances continue to create uncertainty around the overall market outlook.

Economic conditions also present risks for 3i's portfolio companies and therefore overall performance and valuations, as described under Investment risk below.

The reputation of the wider financial services sector remains low. In this context, there is a trend towards closer scrutiny of the integrity and transparency of firms and a greater emphasis on socially responsible investing. Firms that are able to differentiate themselves in these areas are likely to be at an advantage in the future.

Regulatory changes could bring higher costs in the form of onerous disclosures for private equity owned companies, putting private equity firms at a disadvantage compared with other owners. The European AIFM directive, as currently drafted, has the potential to restrict investment by non-European investors in European managed funds and could trigger retaliatory measures from other countries if deemed unfair or anti-competitive.

Strategic

At the start of the year, 3i undertook a number of key strategic projects, focused primarily on improving the Group's financial position. These included the rights issue and solvent liquidation of 3i QPE plc, both of which were successfully completed. Completion of these and other related projects has reduced significantly the Group's gearing, funding and liquidity risks, as described under Treasury and funding risks below.

The Group's human resource base has reduced following restructurings during the past two financial years, leaving the risk that it may not be able to take full advantage of improving market opportunities. A strategic review by the Board has identified specific measures to ensure 3i has the necessary capability in place.

Investment

Several of the Group's key investment risks at the start of the financial year resulted from a combination of adverse economic and market conditions, described earlier, combined with the constraints of the Group's financial position. Risks included the potential need to sell assets at the wrong time or price, low levels of new investment and potential underperformance of portfolio companies impacting valuations.

The overall health of the portfolio has shown signs of stabilisation in the second half of the financial year. Notwithstanding this, some further valuation write-downs have been necessary during the year owing to under performance.

Some refinancing difficulties have been experienced by individual portfolio companies, which in most cases have been resolved, but with increased borrowing costs or other less favourable debt terms. In isolated cases, portfolio companies have had to scale back expansion plans. More detail on this can be found in the business line reviews.

Treasury and funding

Improving the Group's financial position has been a top priority in the course of the financial year. This has included improving liquidity, the reduction of net debt levels and refinancing of maturing debt. As a result of the actions taken over the course of the year, including the successful rights issue, the risks associated with the Group's financial structure at the start of the year are much reduced. The Group aims to maintain a conservative financial structure and has instituted tighter controls and targets to support this, for example, in relation to limits on the proportion of debt maturing in any one year.

The uncertainty around the funding of the Group's main defined benefit pension plan has been reduced with the decision to close the plan to future accrual of benefits by members from 1 April 2011.

Following the Board's decision in 2008 to unwind forward contracts used to hedge currency assets largely denominated in euros and US dollars, the Group currently only uses core currency borrowing to hedge foreign exchange exposures in the portfolio. The limited availability of currency funding at times during the year, meant that the Group's US dollar and euro positions were exposed to the impact of adverse currency movements. As gross debt is reduced, and more of the portfolio is invested outside of the UK, the exposure to foreign exchange risk could also increase.

Operational

The key operational risks facing the Group during the year relate mainly to people. In common with many other businesses, headcount reductions, cost pressures, low levels of investment activity and change in the external business environment have all contributed to a degree of uncertainty for staff. More specific risks include key man retention (specifically in relation to managed funds), alignment to a different and difficult operating environment and the balance of skills and resources to meet these challenges. A people plan has been developed to enable 3i to deliver its business strategy and vision by addressing these and other people risks.

Risk factors

Risk type: External

Risks arising from external factors including political, legal, regulatory, economic and competitor changes which affect the Group’s operations

Inherent risks
- Changes in macroeconomic variables, eg rates of growth
- General health of capital markets, eg conditions for initial public offerings
- Exposure to new and emerging markets
- Regulatory developments
- Changes in government policy, eg taxation
- Reputational risks

Risk mitigation
- Diversified investment portfolio in a range of sectors, with different economic cycles, across geographical markets
- Close monitoring of regulatory and fiscal developments in main markets
- Due diligence when entering new markets or business areas
- Regular Group Risk Management Committee and Board reviews to anticipate, assess and act upon external developments and consider reputational risks

Key developments
- Continuing adverse economic and market conditions
- Regulatory developments which may be unfavourable
- Reputation risk in portfolio companies

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 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

Inherent risks
- Understanding and analysis of risks and rewards
- Appropriateness of business model
- Changes in the Group’s operating environment
- Unanticipated outcomes versus assumptions

Risk mitigation
- Periodic strategic reviews
- Regular monitoring of key risks by Group Risk Management Committee and the Board
- Monitoring of a range of key performance indicators, forecasts and periodic updates of plans and underlying assumptions
- Disciplined management of key strategic projects

Key developments
- Organisational changes, including changes to senior management
- Risks from corporate projects diminished
- Potential loss of key staff in certain areas

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 type: Investment

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

Inherent risks

- Market competition, eg number of participants and availability of funds
- Asset pricing and access to deals, eg on a proprietary basis
- Investor experience and key man retention
- Alignment of remuneration
- Underlying asset performance, eg earnings growth; cash headroom
- Asset valuations
- Overexposure to a particular sector, geography or small number of assets
- Investment performance track record
- Reputational risks arising from portfolio related events

Risk mitigation

- In-depth market and competitor analysis, supported by an international network of sector and industry specialists
- Rigorous investment appraisal and approval process
- Guidelines on responsible investing incorporated into investment procedures
- Regular asset reviews, including risk assessment, based on up to date management accounts and reporting
- Consistent application of detailed valuation guidelines and review processes
- Representation by a 3i executive on the boards of investee companies
- Setting of investment concentration limits
- Periodic portfolio reviews to monitor exposure to sectors, geographies and larger assets

Key developments

- Significantly reduced investment and realisation levels
- Impact of current economic environment on portfolio companies' earnings causing valuations to lag public markets

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 type: Treasury and funding

Risks in relation to changes in market prices and rates; access to capital markets and third-party funds; and the Group's capital structure

Inherent risks

- Liquidity
- Level of gearing
- Debt levels and maturity profile
- Credit rating and access to funds
- Counterparty risk
- Foreign exchange exposure
- Interest rate exposure
- Impact of volatility of investment valuations

Risk mitigation

- Weekly detailed cash flow forecasts, tracked against a minimum liquidity headroom
- Net debt limit and monitoring of gearing range
- Use of currency borrowings to reduce structural currency exposures
- Use of 'plain vanilla' derivatives where appropriate eg interest rate swaps
- Regular reviews of liquidity, gearing, net debt and large currency exposures
- Regular Board reviews of the Group's financial resources and treasury policy, eg currency hedging

Key developments

- Liquidity position strengthened
- Funding of Group pension plan
- Foreign exchange risk

Further information

Overview

- Chief Executive's statement

Business review

- Market conditions

Financial review

- Capital structure, gearing and liquidity

Financial statements

Risk type: Operational

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

Inherent risks

- Resource balance, including recruitment and retention of capable people
- Appropriate systems, processes and procedures
- Adherence to tax regulations, including permanent establishment risk
- Complexity of regulatory operating environment
- Potential exposure to litigation
- Reputational risks arising from operational risk incidents
- Exposure to fraud
- Business disruption

Risk mitigation

- Framework of core values, global policies, a code of business conduct and delegated authorities
- Procedures and job descriptions setting out line management responsibilities for identifying, assessing, controlling and reporting operational risks
- Rigorous staff recruitment, vetting, review and appraisal processes
- Appropriate remuneration structures
- Succession planning
- Close monitoring of legal, regulatory and tax developments by specialist teams
- Internal Audit and Compliance functions carry out independent periodic reviews
- Business continuity and contingency planning
- Controls over information security, confidentiality and conflicts of interest
- Anti-fraud programme

Key developments

- Organisational changes, including headcount reductions
- Risks from key corporate projects eg rights issue diminished

Further information
Business review
Corporate responsibility report
Governance report

Risk governance framework

3i's risk governance framework provides a structured process to oversee the identification, assessment and approach to mitigation in respect of those risks which could materially impact the Group's strategic objectives or execution.

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 or oversight 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 Risk Management Committee provides support to the Board in maintaining oversight of the effectiveness of risk management across the Group. The risk governance framework and the responsibilities of the main committees involved are shown below. Further details can also be found in the Governance section (Pillar 3 disclosures) at www.3igroup.com

Operation during the year

The framework outlined above has been in operation since the start of the financial year, following a review aimed at simplifying and enhancing its effectiveness. This review, concluded in March 2009, was driven by the practical experience of operating through a prolonged period of heightened risks, in the context of deteriorating and uncertain market and economic conditions, and the desire to improve risk oversight in relation to balance sheet management and the investment portfolio. A similar review was conducted in February 2010, with the overall conclusion that the current framework remains fit for purpose.

Each of the committees has met on a quarterly basis, with two exceptions. A sub-committee of the Group Risk Management Committee met monthly during the financial year to monitor key risks and related management actions. This was considered necessary in the context of continued market and economic uncertainty. The Portfolio Risk Committee has met twice. This Committee is closely linked to the Group's Investment Committee, which itself has undergone refinements following the creation of the new role of Chief Investment Officer in 2009. The respective roles of these Committees have been reviewed and clarified as part of the wider review of 3i's investment processes.

Related committees

The Corporate Responsibility Committee considers and reviews corporate responsibility issues relevant to 3i's business, reporting to the Board. This includes identifying and assessing the significant risks and opportunities for 3i arising from corporate responsibility issues. Any reported risks are also considered by the Operational Risk Committee or Group Risk Management Committee as appropriate.

Statement of comprehensive income

for the year to 31 March

	Notes	2010 £m	2009 £m
Realised profits over value on the disposal of investments	2	**218**	63
Unrealised profits/(losses) on the revaluation of investments	3	**458**	(2,440)
		676	(2,377)
Portfolio income			
Dividends		**59**	65
Income from loans and receivables		**110**	108
Fees receivable/(payable)		**(2)**	(2)
Gross portfolio return	1	**843**	(2,206)
Fees receivable from external funds	1	**59**	75
Carried interest			
Carried interest receivable from external funds	4	**30**	(3)
Carried interest and performance fees payable	4	**(88)**	56
Operating expenses		**(221)**	(250)
Net portfolio return		**623**	(2,328)
Interest receivable	5	**12**	34
Interest payable	5	**(124)**	(120)
Movement in the fair value of derivatives		**9**	(38)
Exchange movements		**(359)**	505
Other finance income		**(2)**	3
Profit/(loss) before tax		**159**	(1,944)
Income taxes	7	**(5)**	(4)
Profit/(loss) for the year		**154**	(1,948)
Other comprehensive income			
Exchange differences on translation of foreign operations		**324**	(190)
Revaluation of own-use property		**-**	(4)
Actuarial losses		**(71)**	(8)
Other comprehensive income for the year		**253**	(202)
Total comprehensive income for the year ("Total return")		**407**	(2,150)
Analysed in reserves as:			
Revenue		**97**	99
Capital		**(14)**	(2,059)
Translation reserve		**324**	(190)
		407	(2,150)
Earnings per share			
Basic (pence)	13	**17.2**	(318.7)[1]
Diluted (pence)	13	**17.1**	(318.7)[1]

[1] Restated to reflect the impact of the bonus elements of the rights issue and the acquisition of 3i QPEP.

The rates and amounts of dividends paid and proposed are shown in note 14.

Statement of changes in equity

for the year to 31 March

	Notes	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Total equity at the start of the year		**1,862**	4,057	**2,278**	3,930
Profit/(loss) for the year	12	**154**	(1,948)	**111**	(1,602)
Exchange differences on translation of foreign operations	12	**324**	(190)	**-**	-
Revaluation of own-use property	12	**-**	(4)	**-**	(3)
Actuarial loss	12	**(71)**	(8)	**-**	-
Total comprehensive income for the year		**407**	(2,150)	**111**	(1,605)
Equity settled call option	12	**-**	5	**-**	5
Share-based payments	12	**9**	3	**-**	3
Own shares	12	**(9)**	2	**-**	-
Ordinary dividends	14	**(9)**	(64)	**(9)**	(64)
Issues of ordinary shares	12	**808**	9	**808**	9
Total equity at the end of the year		**3,068**	1,862	**3,188**	2,278

Balance sheet

As at 31 March

	Notes	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Assets					
Non-current assets					
Investments					
Quoted equity investments		**312**	611	**312**	551
Unquoted equity investments		**1,818**	1,970	**423**	715
Loans and receivables		**1,387**	1,469	**313**	303
Investment portfolio		**3,517**	4,050	**1,048**	1,569
Carried interest receivable		**75**	44	**75**	44
Interests in Group entities		**-**	-	**2,347**	2,641
Property, plant and equipment		**17**	22	**4**	4
Total non-current assets		**3,609**	4,116	**3,474**	4,258
Current assets					
Other current assets		**74**	70	**227**	176
Derivative financial instruments		**-**	10	**-**	10
Deposits		**728**	59	**713**	26
Cash and cash equivalents		**1,524**	675	**1,427**	545
Total current assets		**2,326**	814	**2,367**	757
Total assets		**5,935**	4,930	**5,841**	5,015
Liabilities					
Non-current liabilities					
Carried interest payable		**(61)**	(51)	**-**	-
Loans and borrowings		**(1,964)**	(1,793)	**(1,721)**	(1,522)
Convertible bonds	9	**(363)**	(384)	**(363)**	(384)
B shares	10	**(6)**	(12)	**(6)**	(12)
Subordinated liabilities		**-**	(7)	**-**	-
Retirement benefit deficit		**(28)**	(18)	**-**	-
Deferred income taxes	7	**(2)**	-	**-**	-
Provisions		**(10)**	(18)	**-**	-
Total non-current liabilities		**(2,434)**	(2,283)	**(2,090)**	(1,918)
Current liabilities					
Trade and other payables		**(176)**	(255)	**(386)**	(358)
Carried interest payable		**(70)**	(61)	**-**	-
Loans and borrowings		**(125)**	(349)	**(125)**	(349)
Derivative financial instruments		**(52)**	(112)	**(52)**	(112)
Current income taxes		**(3)**	(3)	**-**	-
Provisions		**(7)**	(5)	**-**	-
Total current liabilities		**(433)**	(785)	**(563)**	(819)
Total liabilities		**(2,867)**	(3,068)	**(2,653)**	(2,737)
Net assets		**3,068**	1,862	**3,188**	2,278
Equity					
Issued capital	11	**717**	284	**717**	284
Share premium	12	**779**	405	**779**	405
Capital redemption reserve	12	**43**	42	**43**	42
Share-based payment reserve	12	**24**	20	**20**	20
Translation reserve	12	**145**	(179)	**-**	-
Capital reserve	12	**959**	968	**1,328**	1,256
Revenue reserve	12	**482**	394	**296**	266
Other reserves	12	**5**	5	**5**	5
Own shares		**(86)**	(77)	**-**	-
Total equity		**3,068**	1,862	**3,188**	2,278

Baroness Hogg Chairman
12 May 2010

Cash flow statement
for the year to 31 March

	Notes	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Cash flow from operating activities					
Purchase of investments		**(190)**	(827)	**(354)**	(777)
Proceeds from investments		**1,315**	1,308	**1,417**	1,072
Interest received		**16**	23	**11**	14
Dividends received		**59**	65	**36**	46
Portfolio fees paid		**(2)**	-	**-**	-
Fees received from external funds		**56**	63	**-**	-
Carried interest received		**3**	43	**3**	43
Carried interest paid		**(57)**	(103)	**-**	-
Operating expenses		**(251)**	(316)	**(184)**	(144)
Income taxes paid		**(3)**	(5)	**(1)**	-
Net cash flow from operating activities		**946**	251	**928**	254
Cash flow from financing activities					
Net proceeds from liquidation of 3i QPEP	13	**110**	-	**110**	-
Proceeds from nine for seven rights issue	13	**732**	-	**732**	-
Fees paid for the nine for seven rights issue		**(33)**	-	**(33)**	-
Proceeds for issues of share capital		**18**	9	**18**	9
(Purchase)/disposal of own shares		**(9)**	2	**-**	-
Repurchase of B shares		**(6)**	(9)	**(6)**	(9)
Dividend paid		**(9)**	(64)	**(9)**	(64)
Interest received		**12**	34	**11**	28
Interest paid		**(124)**	(80)	**(121)**	(79)
Premium on call options acquired		**-**	(78)	**-**	(78)
Premium on call options sold		**-**	29	**-**	29
Proceeds from long-term borrowings		**351**	686	**351**	686
Repayment of long-term borrowings		**(205)**	(585)	**(152)**	(566)
Repurchase of long-term borrowings		**(77)**	-	**(77)**	-
Net cash flow from short-term borrowings		**(144)**	(46)	**(144)**	(46)
Net cash flow from derivatives		**(34)**	(249)	**(34)**	(249)
Net cash flow from deposits		**(669)**	(15)	**(687)**	(1)
Net cash flow from financing activities		**(87)**	(366)	**(41)**	(340)
Cash flow from investing activities					
Purchase of property, plant and equipment		**(1)**	(4)	**-**	-
Sale of property, plant and equipment		**-**	3	**-**	-
Net cash flow from investing activities		**(1)**	(1)	**-**	-
Change in cash and cash equivalents		**858**	(116)	**887**	(86)
Cash and cash equivalents at the start of year		**675**	752	**545**	611
Effect of exchange rate fluctuations		**(9)**	39	**(5)**	20
Cash and cash equivalents at the end of year		**1,524**	675	**1,427**	545

Significant accounting policies

3i Group plc (the “Company”) is a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements for the year to 31 March 2010 comprise the financial statements of the Company and its subsidiaries (together referred to as the “Group”). Separate financial statements of the Company are also presented.

The accounting policies of the Company are the same as for the Group except where separately disclosed.

The financial statements were authorised for issue by the Directors on 12 May 2010.

A Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union (“IFRS”).

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 2006.

New standards and interpretations not applied

The IASB has issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

		Effective for period beginning on or after
IAS 27	Amendment – Consolidation and Separate Financial Statements	1 July 2009
IAS 39	Eligible Hedged Items	1 July 2009
IFRS 3	Business Combinations (Revised)	1 July 2009
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

B Basis of preparation

The financial statements are presented in sterling, the functional currency of the Company, rounded to the nearest million pounds (£m) except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The statement of comprehensive income of the Company has been omitted from these financial statements in accordance with section 408 of the Companies Act 2006.

The accounting policies have been consistently applied across all Group entities for the purposes of producing these consolidated financial statements.

C Basis of consolidation

(i) **Subsidiaries**
Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) **Associates**
Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Group has no interests in associates through which it carries on its business.

(iii) **Joint ventures**
Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IAS 31 Interests in Joint Ventures, which requires venturer's interests held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss are accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period of the change.

D Exchange differences

(i) **Foreign currency transactions**
Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the date the fair value was determined.

(ii) **Financial statements of non-sterling operations**
The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised in other comprehensive income and accumulated within a separate component of equity, the Translation reserve, and are released upon disposal of the non-sterling operation.

In respect of non-sterling operations, cumulative translation differences on the consolidation of non-sterling operations are being accumulated from the date of transition to IFRS, 1 April 2004, and not from the original acquisition date.

E Investment portfolio

(i) **Recognition and measurement**
Investments are recognised and de-recognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of dividends and changes in fair value of equity investments.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted equity investments are designated at fair value through profit and loss and are subsequently carried in the balance sheet at fair value. Fair value is measured using the International Private Equity and Venture Capital valuation guidelines, details of which are in the section called Portfolio valuation – an explanation.

Other investments including loan investments, bonds, fixed income shares and variable funding notes are included as loans and receivables. Loans, bonds and fixed income shares are carried in the balance sheet at amortised cost less impairment. For more detail see the section called Portfolio valuation – an explanation. Variable funding notes are used to invest in debt instruments and are carried in the balance sheet at the value derived from the bid prices of the underlying debt instruments taking into account the Group's obligations under the funding contract. The fair value of loans and receivables is not anticipated to be substantially different to the holding value.

All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying 3i Group's valuation policies.

(ii) **Income**
Gross portfolio return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs but excluding exchange movements. Investment income is analysed into the following components:

(a) Realised profits over value on the disposal of investments are the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in
force at the date of disposal.

(b) Unrealised profits on the revaluation of investments are the movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.

(c) Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

- Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value.

- Dividends from equity investments are recognised in the statement of comprehensive income when the shareholders' rights to receive payment have been established.
- Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

F Fees receivable from external funds

(i) **Fund management fees**
The Group manages private equity funds, which primarily co-invest alongside the Group. Fees earned from the ongoing management of these funds are recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(ii) **Advisory fees**
The Group acts as investment adviser to private equity funds. Fees earned from the provision of investment advisory services are recognised on an accruals basis in accordance with the substance of the relevant investment advisory agreement.

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

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

G Carried interest

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

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

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

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

H Property, plant and equipment

(i) **Land and buildings**
Land and buildings are carried in the balance sheet at fair value less depreciation and impairment. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Any revaluation surplus is recognised in other comprehensive income and credited to the Capital reserve except to the extent that it reverses a previous valuation deficit on the same asset recognised in profit or loss in which case the surplus is recognised in profit or loss to the extent of the previous deficit.

Any revaluation deficit that offsets a previously recognised surplus in the same asset is directly offset against the surplus in the Capital reserve. Any excess valuation deficit over and above that previously recognised in surplus is recognised in the statement of comprehensive income.

Depreciation on revalued buildings is charged in the statement of comprehensive income over their estimated useful life, generally over 50 years.

(ii) **Vehicles and office equipment**
Vehicles and office equipment are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years; computer equipment three years; computer software three years; motor vehicles four years.

(iii) **Assets held under finance leases**
Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term. Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The interest element of the rental obligations is charged in the statement of comprehensive income over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

I Treasury assets and liabilities
Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

(i) **Cash and cash equivalents**
Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to insignificant risk of changes in value, net of bank overdrafts.

(ii) **Deposits**
Deposits in the balance sheet comprise longer term deposits with an original maturity of greater than three months.

(iii) **Bank loans, loan notes and borrowings**
All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(iv) **Convertible bonds**
The convertible bonds are cash settled and are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). Subsequent to initial recognition the conversion option is measured as a derivative financial instrument with the market value of the instrument at period end used as its fair value. The remainder of the proceeds are allocated to the liability component and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

(v) **Derivative financial instruments**
Derivative financial instruments have historically been used to manage the risk associated with foreign currency fluctuations of the investment portfolio and changes in interest rates on its borrowings. This is achieved by the use of foreign exchange contracts, currency swaps and interest rate swaps. All derivative financial instruments are held at fair value.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of financial instruments are taken to the statement of comprehensive income.

Derivatives over own shares are classified as equity when they will be settled by the exchange of a fixed amount of shares for a fixed amount of cash.

(vi) **Subordinated liabilities**
The Group has some limited recourse funding, which individually finances investment assets, at various fixed rates of interest and whose maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual Group entity to which the funds have been advanced and becomes non-repayable as the assets fail. These liabilities are held in the balance sheet at the amount expected to be repayable based on the underlying assets. Changes in the amounts repayable as a result of changes in the underlying assets are treated as other income in the statement of comprehensive income. Interest payable on subordinated liabilities is charged as it accrues by reference to the principal outstanding and the effective interest rate applicable.

J Employee benefits

(i) **Retirement benefit costs**
Payments to defined contribution retirement benefit plans are charged to the statement of comprehensive income as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Current service costs are recognised in the statement of comprehensive income. Actuarial gains or losses are recognised in full as they arise in other comprehensive income.

A retirement benefit deficit is recognised in the balance sheet to the extent that the present value of the defined benefit obligations exceeds the fair value of plan assets.

A retirement benefit surplus is recognised in the balance sheet where the fair value of plan assets exceeds the present value of the defined benefit obligations limited to the extent that the Group can benefit from that surplus.

(ii) **Share-based payments**
In accordance with the transitional provisions of IFRS 1, the requirements of IFRS 2 have been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005. The costs of share-based payments made by the Company in respect of subsidiaries' employees are treated as additional investments in those subsidiaries.

The Group enters into arrangements that are equity-settled share-based payments with certain employees. These are measured at fair value at the date of grant, which is then recognised in the statement of comprehensive income on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative charges since the previous balance sheet is recognised in the statement of comprehensive income, with a corresponding entry in equity.

K Other assets
Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the statement of comprehensive income. An impairment loss is reversed at subsequent balance sheet dates to the extent that the asset's carrying amount does not exceed its carrying value had no impairment been recognised.

L Other liabilities
Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

M Share capital
Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

N Provisions
Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the statement of comprehensive income for the period.

O Income taxes
Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the statement of comprehensive income, except

where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit (“temporary differences”), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable differences arising on investments in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control reversal of the temporary difference and it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the financial statements

1 Segmental analysis

				Quoted	**Smaller**		
		Growth	**Infra-**	**Private**	**Minority**	**Venture**	
	Buyouts	**Capital**	**structure**	**Equity**	**Investments**	**Portfolio**	**Total**
Year to 31 March 2010	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross portfolio return[1]							
Realised profits/(losses) over value on the disposal of investments	**223**	**(14)**	**-**	**-**	**15**	**(6)**	**218**
Unrealised profits/(losses) on the revaluation of investments	**249**	**145**	**84**	**-**	**8**	**(28)**	**458**
Portfolio income							
Dividends	**-**	**36**	**15**	**-**	**8**	**-**	**59**
Income from loans and receivables	**78**	**29**	**1**	**-**	**2**	**-**	**110**
Fees payable	**-**	**(2)**	**-**	**-**	**-**	**-**	**(2)**
	550	**194**	**100**	**-**	**33**	**(34)**	**843**
Fees receivable from external funds	**39**	**-**	**20**	**-**	**-**	**-**	**59**
Net (investment)/divestment							
Realisations	**467**	**578**	**46**	**-**	**69**	**225**	**1,385**
Investment	**(243)**	**(121)**	**(2)**	**-**	**(1)**	**(19)**	**(386)**
	224	**457**	**44**	**-**	**68**	**206**	**999**
Balance sheet							
Value of investment portfolio at the end of the year	**1,614**	**1,331**	**407**	**-**	**107**	**58**	**3,517**

				Quoted	Smaller		
		Growth	Infra-	Private	Minority	Venture	
	Buyouts	Capital	structure	Equity	Investments	Portfolio	Total
Year to 31 March 2009	£m	£m	£m	£m	£m	£m	£m
Gross portfolio return[1]							
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							
Dividends	1	25	26	-	9	4	65
Income from loans and receivables	64	33	6	-	2	3	108
Fees receivable/(payable)	(3)	2	-	-	-	(1)	(2)
	(678)	(1,035)	(50)	26	(53)	(416)	(2,206)
Fees receivable from external funds	45	1	26	3	-	-	75
Net (investment)/divestment							
Realisations	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 the end of the year	1,467	1,574	371	171	153	314	4,050

[1] The segmental profit or loss reported in accordance with IFRS 8 Operating Segments, is defined in gross portfolio return.

The Group organises its activity by business line and these are defined as the Group's reportable segments under IFRS 8, Operating Segments. The business lines are determined with reference to market focus, geographic focus, and investment funding model.

The assets within the Quote Private Equity business line were transferred to the Growth Capital business line in the year to 31 March 2010 as part of the solvent liquidation of 3i Quoted Private Equity plc. Details of this transaction can be found in note 13.

Year to 31 March 2010	UK £m	Continental Europe £m	Asia £m	North America £m	Rest of World £m	Total £m
Gross portfolio return						
Realised profits/(losses) over value on the disposal of investments	41	150	27	1	(1)	218
Unrealised profits/(losses) on the revaluation of investments	201	115	75	69	(2)	458
Portfolio income	104	35	2	26	-	167
	346	300	104	96	(3)	843
Fees receivable from external funds	41	9	9	-	-	59
Net (investment)/divestment						
Realisations	621	542	134	84	4	1,385
Investment	(222)	(118)	(25)	(19)	(2)	(386)
	399	424	109	65	2	999
Balance sheet						
Value of investment portfolio at the end of the year	1,327	1,381	509	294	6	3,517

Year to 31 March 2009	UK £m	Continental Europe £m	Asia £m	North America £m	Rest of World £m	Total £m
Gross portfolio return						
Realised profits/(losses) over value on the disposal of investments	51	185	(60)	(113)	-	63
Unrealised losses on the revaluation of investments	(660)	(1,195)	(238)	(331)	(16)	(2,440)
Portfolio income	115	38	13	5	-	171
	(494)	(972)	(285)	(439)	(16)	(2,206)
Fees receivable from external funds	47	19	9	-	-	75
Net (investment)/divestment						
Realisations	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 the end of the year	1,719	1,618	491	209	13	4,050

2 Realised profits over value on the disposal of investment

	2010 Unquoted equity £m	2010 Quoted equity £m	2010 Loans and receivables £m	2010 Total £m
Realisations	701	389	295	1,385
Valuation of disposed investments	(527)	(279)	(283)	(1,089)
Investments written off	(32)	-	(46)	(78)
	142	110	(34)	218

	2009 Unquoted equity £m	2009 Quoted equity £m	2009 Loans and receivables £m	2009 Total £m
Realisations	1,023	172	113	1,308
Valuation of disposed investments	(896)	(214)	(117)	(1,227)
Investments written off	(14)	-	(4)	(18)
	113	(42)	(8)	63

Loans and receivables include net proceeds of £64 million (2009: £nil) and realised profits of £55 million (2009: £nil) from variable funding notes relating to the Debt Warehouse.

3 Unrealised profits/(losses) on the revaluation of investments

	2010 Unquoted equity £m	**2010 Quoted equity £m**	**2010 Loans and receivables £m**	**2010 Total £m**
Movement in the fair value of equity	**321**	**77**	**-**	**398**
Provisions, loan impairments and other movements[1]	**(24)**	**-**	**84**	**60**
	297	**77**	**84**	**458**

	2009 Unquoted equity £m	2009 Quoted equity £m	2009 Loans and receivables £m	2009 Total £m
Movement in the fair value of equity	(1,323)	(126)	-	(1,449)
Provisions, loan impairments and other movements[1]	(110)	-	(881)	(991)
	(1,433)	(126)	(881)	(2,440)

[1] Included within loan impairments is a £45 million value increase for variable funding notes relating to the Debt Warehouse (2009: £112 million value reduction).

Provisions have been recognised only on investments where it is considered there is a greater than 50% risk of failure. All other equity value movements are included within the movement in the fair value of equity.

4 Carried interest

	2010 £m	2009 £m
Carried interest receivable from external funds	**30**	(3)
Carried interest and performance fees payable	**(88)**	56
	(58)	53

Carried interest receivable represents the Group's share of profits from external funds. Each fund is reviewed at the balance sheet date and income is accrued based on fund profits in excess of the performance conditions within the fund, taking into account cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest payable represents the amount payable to executives from the Group's carried interest schemes. As with carried interest receivable, each scheme is separately reviewed at the balance sheet date, and an accrual made equal to the executives' share of profits once the performance conditions in the scheme have been met.

In the year to March 2009 the performance in some schemes resulted in a reversal of the accrual previously recognised resulting in a £56 million credit.

5 Net interest payable

	2010 £m	2009 £m
Interest receivable		
Interest on bank deposits	**12**	34
	12	34
Interest payable		
Interest on loans and borrowings	**(85)**	(84)
Interest on Convertible bonds	**(16)**	(17)
Amortisation of Convertible bonds	**(21)**	(20)
Subordinated borrowings[1]	**(1)**	2
Net finance expenses on pension plan	**(1)**	(1)
	(124)	(120)
Net interest payable	**(112)**	(86)

[1] Includes fair value movement on the underlying loan.

6 Movement in the fair value of derivatives

	2010 £m	2009 £m
Forward foreign exchange contracts and currency swaps	**-**	4
Interest-rate swaps	**7**	(46)
Derivative element of Convertible bonds	**3**	58
Call options	**(1)**	(54)
	9	(38)

Further information on 3i's Convertible bonds is provided in note 9.

7 Income taxes

	2010 **£m**	2009 £m
Current taxes		
Current year	**(3)**	(6)
Deferred taxes		
Deferred income taxes	**(2)**	2
Total income taxes in the statement of comprehensive income	**(5)**	(4)

Reconciliation of income taxes in the statement of comprehensive income
The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 28% (2009: 28%), and the differences are explained below:

	2010 **£m**	2009 £m
Profit before tax	**159**	(1,944)
Profit before tax multiplied by rate of corporation tax in the UK of 28% (2009: 28%)	**(45)**	544
Effects of:		
Permanent differences	**5**	3
Short-term timing differences	**3**	4
Non-taxable dividend income	**13**	5
Foreign tax	**(3)**	(6)
Foreign tax credits available for double tax relief	**-**	3
Realised profits, changes in fair value and impairment losses not taxable	**22**	(557)
Total income taxes in the statement of comprehensive income	**(5)**	(4)

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be
approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non-taxable.

Deferred income taxes

	2010 **Group** **balance** **sheet** **£m**	2009 Group balance sheet £m
Opening deferred income tax liability		
Tax losses	**9**	5
Income in accounts taxable in the future	**(9)**	(7)
	-	(2)
Recognised through statement of comprehensive income		
Tax losses utilised	**8**	4
Income in accounts taxable in the future	**(10)**	(2)
	(2)	2
Closing deferred income tax liability		
Tax losses	**17**	9
Income in accounts taxable in the future	**(19)**	(9)
	(2)	-

At 31 March 2010 the Group had tax losses carried forward of £775 million (2009: £751 million). It is unlikely that the Group will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 28% (2009: 28%).

8 Financial risk management

	Group 2010 £m	Group 2009 £m
Cash, deposits and derivative financial assets	**2,252**	744
Borrowings and derivative financial liabilities	**(2,510)**	(2,656)
Net debt	**(258)**	(1,912)
Total equity	**3,068**	1,862
Gearing (net debt/total equity)	**8%**	103%

	Group 2010 not past due £m	**Group 2010 up to 12 months past due £m**	**Group 2010 more than 12 months past due £m**	**Group 2010 Total £m**	**Company 2010 not past due £m**	**Company 2010 up to 12 months past due £m**	**Company 2010 more than 12 months past due £m**	**Company 2010 Total £m**
Loans and receivables before provisions and impairments	**1,541**	**146**	**52**	**1,739**	**319**	**57**	**25**	**401**
Provisions on investments that have failed or expected to fail in the next 12 months	**(20)**	**(7)**	**(2)**	**(29)**	**(12)**	**(6)**	**(2)**	**(20)**
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment	**(246)**	**(64)**	**(13)**	**(323)**	**(55)**	**(3)**	**(10)**	**(68)**
Total	**1,275**	**75**	**37**	**1,387**	**252**	**48**	**13**	**313**

	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

Movements on loan impairment 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 2008	(85)	(71)	(156)	(44)	(66)	(110)
Other movements	85	175	260	33	77	110
Charged to income statement in the year	(46)	(835)	(881)	(11)	(241)	(252)
Balance as at 31 March 2009	(46)	(731)	(777)	(22)	(230)	(252)
Other movements	17	324	341	2	114	116
Credited to income statement in year[1]	-	84	84	-	48	48
Balance as at 31 March 2010	**(29)**	**(323)**	**(352)**	**(20)**	**(68)**	**(88)**

[1] Included within impairments for the Group and Company is a £45 million value increase for variable funding notes relating to the Debt Warehouse (2009: £112 million decrease).

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 gross contractual liabilities.

Financial liabilities

As at 31 March 2010	**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	**91**	**88**	**193**	**1,436**	**1,808**
Variable loan notes	**17**	**19**	**732**	**-**	**768**
Convertible bond 2011 £430m 3.625%	**11**	**396**	**-**	**-**	**407**
Committed multi-currency facility	**7**	**7**	**307**	**-**	**321**
Euro commercial paper	**92**	**-**	**-**	**-**	**92**
Interest rate swaps	**19**	**10**	**8**	**7**	**44**
Equity element of convertible bond	**-**	**-**	**-**	**-**	**-**
Carried interest payable within one year	**70**	**-**	**-**	**-**	**70**
Total	**307**	**520**	**1,240**	**1,443**	**3,510**

As at 31 March 2010	**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	**91**	**88**	**193**	**1,436**	**1,808**
Variable loan notes	**17**	**19**	**732**	**-**	**768**
Convertible bond 2011 £430m 3.625%	**11**	**396**	**-**	**-**	**407**
Committed multi-currency facility	**3**	**3**	**61**	**-**	**67**
Euro commercial paper	**92**	**-**	**-**	**-**	**92**
Interest rate swaps	**19**	**10**	**8**	**7**	**44**
Equity element of convertible bond	**-**	**-**	**-**	**-**	**-**
Carried interest payable within one year	**-**	**-**	**-**	**-**	**-**
Total	**233**	**516**	**994**	**1,443**	**3,186**

In the year to 31 March 2010, the Group closed out its remaining currency swaps and forward foreign exchange contracts. An analysis of gross amounts receivable and payable under currency swaps and forward foreign currency contracts as at 31 March 2009 can be found in the 3i Group plc report and accounts 2009.

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 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 on risk on a consolidated basis.

	Group 2010 Sterling £m	**Group 2010 Euro £m**	**Group 2010 US Dollar £m**	**Group 2010 Swedish Krona £m**	**Group 2010 Indian Rupee £m**	**Group 2010 Swiss Franc £m**	**Group 2010 Other £m**	**Group 2010 Total £m**
Net assets	**1,836**	**436**	**575**	**(113)**	**94**	**(27)**	**267**	**3,068**
Sensitivity analysis Assuming a 5% movement in exchange rates against sterling:								
Impact on exchange movements in the statement of comprehensive income	**n/a**	**68**	**81**	**14**	**-**	**-**	**3**	**166**
Impact on the translation of foreign operations in other comprehensive income	**n/a**	**(44)**	**(52)**	**(9)**	**5**	**1**	**4**	**(95)**
Total	**n/a**	**24**	**29**	**5**	**5**	**1**	**7**	**71**

	Company 2010 Sterling £m	**Company 2010 Euro £m**	**Company 2010 US Dollar £m**	**Company 2010 Swedish Krona £m**	**Company 2010 Indian Rupee £m**	**Company 2010 Swiss Franc £m**	**Company 2010 Other £m**	**Company 2010 Total £m**
Net assets	**1,558**	**606**	**852**	**125**	**-**	**2**	**45**	**3,188**
Sensitivity analysis Impact on exchange movements in the statement of comprehensive income assuming a 5% movement in exchange rates against sterling	**n/a**	**31**	**45**	**7**	**-**	**-**	**2**	**85**
	n/a	**31**	**45**	**7**	**-**	**-**	**2**	**85**

	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 statement of comprehensive income	n/a	58	107	(11)	(2)	30	n/a	182
Impact on the translation of foreign operations in other comprehensive income	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 statement of comprehensive income assuming a 5% movement in exchange rates against sterling	n/a	14	40	5	-	(8)	7	58

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 statement of comprehensive income:

	2010 Quoted equity £m	**2010 Unquoted equity £m**	**2010 Total £m**	2009 Quoted Equity £m	2009 Unquoted Equity £m	2009 Total £m
Group	16	91	107	30	96	126
Company	16	21	37	28	33	61

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

9 Convertible bonds

	Group 2010 £m	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Opening balance	**384**	433	**384**	433
Amortisation on €550 million convertible	**-**	4	**-**	4
Amortisation on £430 million convertible	**21**	16	**21**	16
Exchange movements on €550 million convertible	**-**	(3)	**-**	(3)
Repayments during the year	**-**	(434)	**-**	(434)
New borrowings during the year	**-**	368	**-**	368
Repurchase during the year	**(42)**	-	**(42)**	-
Closing balance	**363**	384	**363**	384

On 29 May 2008 a £430 million three year 3.625% convertible bond was raised. The derivative element of the £430 million convertible bond is cash settled. The Group share price on issue was £8.86 and the conversion price for bondholders was £11.32. Following the rights issue the conversion price for bondholders reduced to £7.51.

On issue, part of the proceeds was recognised as a derivative financial instrument and the remaining amount recognised as a loan held at amortised cost with an effective interest rate of 8.5%. The fair value of the loan at 31 March 2010 was £391 million (2009: £341 million), determined by its published market price and classified as Level 1 in the fair value hierarchy.

As at 30 April 2010, the Group announced the intention to cancel £145 million convertible bonds. Further details can be found in note 17, post balance sheet events.

10 B shares

	Group 2010 £m	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Opening balance	**12**	21	**12**	21
Repurchased and cancelled	**(6)**	(9)	**(6)**	(9)
Closing balance	**6**	12	**6**	12

11 Issued capital

Authorised*	**2010 Number**	**2010 £m**	2009 Number	2009 £m
Ordinary shares of 73 19/22p	**1,102,899,402**	**815**	555,076,720	410
B shares of 1p	**660,000,000**	**7**	660,000,000	7
Unclassified shares of 10p	**1,000,000**	**0.1**	1,000,000	0.1

* The concept of authorised share capital was abolished by the Companies Act 2006 with effect from 1 October 2009. The previous authorised share capital remains a limit on the Directors' authority to allot shares until altered by shareholders in general meeting.

Issued and fully paid	**2010 Number**	**2010 £m**	2009 Number	2009 £m
Ordinary shares of 73 19/22p				
Opening balance	**383,970,880**	**284**	382,741,094	283
Issued under employee share plans	**6,745,260**	**5**	1,229,786	1
Nine for seven rights issue	**542,060,391**	**400**	-	-
Issue for acquisition of assets of 3i Quoted Private Equity plc	**37,604,945**	**28**	-	-
Closing balance	**970,381,476**	**717**	383,970,880	284

During the year to 31 March 2010, no options to subscribe for ordinary shares were exercised. Issued under employee share plans includes 6,380,198 ordinary shares subscribed by employees under the Employee Share Investment Plan in June 2009.

12 Equity

Year to 31 March 2010

Group	**Share Capital £m**	**Share Premium £m**	**Capital redemption reserve £m**	**Share-based payment reserve £m**	**Translation reserve £m**
Total equity at the start of the year	**284**	**405**	**42**	**20**	**(179)**
Profit for the year	**-**	**-**	**-**	**-**	**-**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**324**
Actuarial losses	**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**324**
Share based payments	**-**	**-**	**-**	**9**	**-**
Own shares	**-**	**-**	**-**	**-**	**-**
Release on forfeiture of share options	**-**	**-**	**-**	**(5)**	**-**
Ordinary dividends	**-**	**-**	**-**	**-**	**-**
Issue of ordinary shares	**433**	**374**	**1**	**-**	**-**
Total equity at the end of the year	**717**	**779**	**43**	**24**	**145**

Year to 31 March 2010

Group	**Capital reserve £m**	**Revenue reserve £m**	**Other reserves £m**	**Own shares £m**	**Total equity £m**
Total equity at the start of the year	**968**	**394**	**5**	**(77)**	**1,862**
Profit for the year	**57**	**97**	**-**	**-**	**154**
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**-**	**324**
Actuarial losses	**(71)**	**-**	**-**	**-**	**(71)**
Total comprehensive income for the year	**(14)**	**97**	**-**	**-**	**407**
Share based payments	**-**	**-**	**-**	**-**	**9**
Own shares	**-**	**-**	**-**	**(9)**	**(9)**
Release on forfeiture of share options	**5**	**-**	**-**	**-**	**-**
Ordinary dividends	**-**	**(9)**	**-**	**-**	**(9)**
Issue of ordinary shares	**-**	**-**	**-**	**-**	**808**
Total equity at the end of the year	**959**	**482**	**5**	**(86)**	**3,068**

On 12 June 2009, 3i Group plc raised £699 million net of £33 million of expenses by way of a rights issue.

Year to 31 March 2009

Group	Share Capital £m	Share Premium £m	Capital redemption reserve £m	Share based payment reserve £m	Translation reserve £m
Total equity at the start of the year	283	397	42	21	11
(Loss)/profit for the year					
Exchange differences on translation of foreign operations					(190)
Revaluation of own-use property					
Actuarial losses					
Total comprehensive income for the year	-	-	-	-	(190)
Equity settled call option					
Share based payments				3	
Own shares					
Release on exercise/forfeiture of share options				(4)	
Ordinary dividends					
Issue of ordinary shares	1	8			
Total equity at the end of the year	284	405	42	20	(179)

Year to 31 March 2009

Group	Capital reserve £m	Revenue reserve £m	Other reserves £m	Own shares £m	Total equity £m
Total equity at the start of the year	3,026	359	-	(82)	4,057
(Loss)/profit for the year	(2,047)	99			(1,948)
Exchange differences on translation of foreign operations					(190)
Revaluation of own-use property	(4)				(4)
Actuarial losses	(8)				(8)
Total comprehensive income for the year	(2,059)	99	-	-	(2,150)
Equity settled call option			5		5
Share based payments					3
Own shares				2	2
Release on exercise/forfeiture of share options	1			3	-
Ordinary dividends		(64)			(64)
Issue of ordinary shares					9
Total equity at the end of the year	968	394	5	(77)	1,862

Year to 31 March 2010

Company	**Share Capital £m**	**Share Premium £m**	**Capital redemption reserve £m**	**Share-based payment reserve £m**
Total equity at the start of the year	**284**	**405**	**42**	**20**
Profit for the year				
Revaluation of own-use property				
Total comprehensive income for the year				
Ordinary dividends				
Issue of ordinary shares	**433**	**374**	**1**	
Total equity at the end of the year	**717**	**779**	**43**	**20**

Year to 31 March 2010

Company	**Capital reserve £m**	**Revenue reserve £m**	**Other reserves £m**	**Total equity £m**
Total equity at the start of the year	**1,256**	**266**	**5**	**2,278**
Profit for the year	**72**	**39**		**111**
Revaluation of own-use property				**-**
Total comprehensive income for the year	**72**	**39**		**111**
Ordinary dividends		**(9)**		**(9)**
Issue of ordinary shares				**808**
Total equity at the end of the year	**1,328**	**296**	**5**	**3,188**

Year to 31 March 2009

Company	Share Capital £m	Share Premium £m	Capital redemption reserve £m	Share-based payment reserve £m
Total equity at the start of the year	283	397	42	21
(Loss)/profit for the year				
Revaluation of own-use property				
Total comprehensive income for the year	-	-	-	-
Equity settled call option				
Share based payments				3
Release on exercise/forfeiture of share options				(4)
Ordinary dividends				
Issue of ordinary shares	1	8		
Total equity at the end of the year	284	405	42	20

Year to 31 March 2009

Company	Capital reserve £m	Revenue reserve £m	Other reserves £m	Total equity £m
Total equity at the start of the year	2,877	310	-	3,930
(Loss)/profit for the year	(1,622)	20		(1,602)
Revaluation of own-use property	(3)			(3)
Total comprehensive income for the year	(1,625)	20	-	(1,605)
Equity settled call option			5	5
Share based payments				3
Release on exercise/forfeiture of share options	4			-
Ordinary dividends		(64)		(64)
Issue of ordinary shares				9
Total equity at the end of the year	1,256	266	5	2,278

Capital redemption reserve
The capital redemption reserve is established in respect of the redemption of the Company's ordinary shares.
Share-based payment reserve
The share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.
Translation reserve
The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations.
Capital reserve
The capital reserve recognises all profits that are capital in nature or have been allocated to capital. These profits are not distributable by way of dividend.
Revenue reserve
The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

13 Per share information

	March 2010	March 2009[1]
Earnings per share (pence)		
Basic	**17.2**	(318.7)
Diluted	**17.1**	(318.7)
Earnings (£m)		
Profit/(Loss) for the year attributable to equity holders of the Company	**154**	(1,948)

	March 2010	March[1] 2009
Weighted average number of shares in issue		
Ordinary shares	**910,689,107**	383,495,547
Own shares	**(16,310,231)**	(10,465,956)
	894,378,876	373,029,591
Impact of rights issue bonus element and 3i QPEP bonus element		238,239,213
Effect of dilutive potential ordinary shares		
Share options[2]	**5,026,956**	-
Diluted shares	**899,405,832**	611,268,804

	March 2010	March 2009[1]
Net assets per share (£)		
Basic	**3.23**	2.96
Diluted	**3.21**	2.94
Net assets (£m)		
Net assets attributable to equity holders of the Company	**3,068**	1,862

[1] Restated to reflect the impact of the bonus element of the rights issue and the solvent liquidation of 3i QPEP. The net assets used to calculate the NAV per share comparative include £90 million relating to the 37.6 million shares issued following the 3i QPEP transaction.
[2] The potential effect of share options is excluded from the 2009 dilution calculation for the period, as the impact is anti-dilutive.

	2010 **Number**	2009 Number
Number of shares in issue		
Ordinary shares	**970,381,476**	383,970,880
Own shares	**(19,758,485)**	(10,259,767)
	950,622,991	373,711,113
Impact of rights issue bonus element and 3i QPEP		286,821,345
	950,622,991	660,532,458
Effect of dilutive potential ordinary shares		
Share options	**6,607,673**	1,399,354
Impact of rights issue bonus element and 3i QPEP		893,712
Diluted shares	**957,230,664**	662,825,524

NAV per share reconciliation adjusted for share issues

The nine for seven rights issue completed on 12 June 2009 and the acquisition of the assets of 3i QPEP through the issue of 37.6 million new shares has resulted in the opening NAV per share not being directly comparable with the closing NAV per share. The following table illustrates the impact of these share issues on the opening NAV per share.

Group basic NAV per share	Net assets £m	Number of shares	Basic NAV per share impact £
31 March 2009 reported position	1,862	373,711,113	4.98
Impact of 3i QPEP acquisition	90	37,604,945	(0.23)
	1,952	411,316,058	4.75
Impact of nine for seven rights issue[1,4]	699	536,306,211	(1.94)
31 March 2009 adjusted for share issues	2,651	947,622,269	2.81
Other movements[2]	10	3,000,722	(0.01)
	2,661	950,622,991	2.80
Total comprehensive income in year	407	950,622,991	0.43
	3,068	950,622,991	3.23

Group diluted NAV per share	Net assets £m	Number of shares	Basic NAV per share impact £
31 March 2009 reported position	1,862	375,110,467	4.96
Impact of 3i QPEP acquisition	90	37,604,945	(0.23)
	1,952	412,715,412	4.73
Impact of nine for seven rights issue[1,4]	699	536,306,211	(1.94)
31 March 2009 adjusted for share issues	2,651	949,021,623	2.79
Other movements including the increase in dilutive shares in the year[3]	10	8,209,041	(0.01)
	2,661	957,230,664	2.78
Total comprehensive income in year	407	957,230,664	0.43
	3,068	957,230,664	3.21

[1] The number of shares included within the impact of the nine for seven rights issue includes 542,060,391 ordinary shares issued less 5,754,180 ordinary shares issued to the 3i Group Employee Trust as part of the rights issue, which are included in our own shares and deducted from the number of ordinary shares issued when calculating basic and diluted NAV per share.

[2] Other movements relate to employee share incentive plans and dividends.

[3] Includes (2) above and additional dilutive share options.

[4] Net proceeds of the nine for seven rights issue were £732 million gross proceeds, less £33 million of costs.

14 Dividends

	2010 pence per share	**2010 £m**	2009 pence per share[1]	2009 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	**-**	**-**	6.7	41
Interim dividend	**1.0**	**9**	3.8	23
	1.0	**9**	10.5	64
Proposed final dividend	**2.0**	**19**	-	-

[1] Restated to reflect impact of the bonus element of the rights issue and the solvent liquidation of 3i QPEP.

15 Contingent liabilities

	Group 2010 £m	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	**5**	6	**-**	1

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £100 million bilateral facility, £486 million and £200 million revolving credit facilities. At 31 March 2010, 3i Holdings plc had drawn down £78 million (2009: £72 million) under the first facility and £165 million (2009: £200 million) under the second facility.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group
Pension Plan.

At 31 March 2010, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

16 Related parties

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio, its advisory arrangements and its key management personnel. In addition the Company has related parties in respect of its subsidiaries.

Limited partnerships

The Group manages a number of external funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

	Group 2010	Group 2009	**Company 2010**	Company 2009
Statement of comprehensive income	**£m**	£m	**£m**	£m
Carried interest receivable	**30**	(3)	**30**	(3)
Fees receivable from external funds	**47**	53	**-**	-

Balance sheet	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Carried interest receivable	**75**	44	**75**	44

The Group partially sold seven seed portfolio investments to the Growth Capital Fund for £96 million in the year.

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:

Statement of comprehensive income	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Realised profit over value on the disposal of investments	**58**	151	**19**	2
Unrealised profits/(losses) on the revaluation of investments	**327**	(1,372)	**136**	(421)
Portfolio income	**126**	138	**41**	45

Balance sheet	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Quoted equity investments	**302**	496	**302**	487
Unquoted equity investments	**1,267**	1,224	**329**	502
Loans and receivables	**1,264**	1,219	**205**	8

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. There has been no single transaction in the year with a material effect on the Group’s financial statements and all such transactions are fully included in the above disclosure.

Advisory arrangements
The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange, and acted as adviser to 3i Quoted Private Equity plc prior to its solvent liquidation. The following amounts have been included in respect of these advisory relationships:

Statement of comprehensive income	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Unrealised profits/(losses) on the revaluation of investments	**72**	(47)	**72**	(47)
Fees receivable from external funds	**12**	19	**12**	19
Dividends	**15**	17	**15**	17

The Group entered into two separate transactions with 3i Infrastructure plc during the year. Under the first transaction, 3i Osprey LP sold 1.1% of its interest in Anglian Water Group to an unrelated third party. The net proceeds of the sale (£21 million) were distributed to 3i Group in exchange for a reduction of 6.2% in its interest in 3i Osprey LP. Under the second transaction, 3i Group sold 8.8% of its limited partnership interest in 3i Osprey LP to 3i Infrastructure plc. The net consideration for the second transaction was £23 million. As a result of both transactions, 3i Group has been left with a limited partnership interest of 2.3% in 3i Osprey LP.

Balance sheet	**Group 2010 £m**	Group 2009 £m	**Company 2010 £m**	Company 2009 £m
Quoted equity investments	**300**	395	**300**	395

Key management personnel
The Group's key management personnel comprises the members of Management Committee and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

Statement of comprehensive income	**Group 2010 £m**	Group 2009 £m
Salaries, fees, supplements and benefits in kind	**4**	6
Bonuses and deferred share bonuses	**8**	1
Increase in accrued pension	-	-
Carried interest payable	**11**	(1)
Share-based payments	**1**	2
Termination benefits	**-**	3

Balance sheet	**Group 2010 £m**	Group 2009 £m
Bonuses and deferred share bonuses	**7**	1
Carried interest payable within one year	**8**	4
Carried interest payable after one year	**7**	7

Carried interest paid in the year to key management personnel was £6 million (2009: £14 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 £21 million (2009: £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 £184 million (2009: £143 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 2010 to £nil (2009: £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 statement of comprehensive income are £nil (2009: £nil).

17 Post balance sheet events

As at 30 April 2010 the Group had purchased a total of £145 million of its convertible bonds on the open market for £148 million. The Group confirmed via RNS announcements on 14, 15 and 30 April 2010 that the bonds would be cancelled, leaving the Group with an outstanding convertible bond liability of £285 million at maturity. This cancellation has since been confirmed and the impact on the statement of comprehensive income is a £1 million gain.

Ten largest investments

The list below provides information on our ten largest investments in respect of the Group's holding, excluding any managed or advised external funds.

1 **3i Infrastructure plc**

3i-infrastructure.com

Quoted investment company, investing in infrastructure

Geography:	UK
Business line:	Infrastructure
First invested in:	2007
Valuation basis:	Quoted
Proportion of equity shares held:	33.2%
Residual cost:	£270m
Valuation:	£300m

2 **ACR Capital Holdings Pte Limited**

asiacapitalre.com

Reinsurance in large risk segments

Geography:	Singapore
Business line:	Growth
First invested in:	2006
Valuation basis:	Industry metric
Proportion of equity shares held:	31.2%
Residual cost:	£105m
Valuation:	£149m

3 **Inspicio Sarl**

inspicioplc.com

Global testing and inspection

Geography:	UK
Business line:	Buyout
First invested in:	2008
Valuation basis:	Earnings
Proportion of equity shares held:	38.2%
Residual cost:	£133m
Valuation:	£147m

4 **Enterprise Group Holdings Limited**

enterprise.plc.uk

UK utilities and public sector maintenance outsourcing

Geography:	UK
Business line:	Buyout
First invested in:	2007
Valuation basis:	Earnings
Proportion of equity shares held:	32.2%
Residual cost:	£145m
Valuation:	£144m

5 **Quintiles Transnational Corporation**

quintiles.com

Clinical research outsourcing solutions

Geography:	US
Business line:	Growth
First invested in:	2008
Valuation basis:	Earnings
Proportion of equity shares held:	4.9%
Residual cost:	£70m
Valuation:	£128m

6 **MWM GmbH**

mwm.net

Provider of decentralised power generation systems

Geography:	Germany
Business line:	Buyout
First invested in:	2007
Valuation basis:	Earnings
Proportion of equity shares held:	41.3%
Residual cost:	£69m
Valuation:	£127m

7 **Foster + Partners**[1]

fosterandpartners.com

Architectural services

Geography:	UK
Business line:	Growth
First invested in:	2007
Valuation basis:	Earnings
Proportion of equity shares held:	40.0%
Valuation:	£113m

8 **Mémora Servicios Funerarias**

memora.es

Funeral service provider

Geography:	Spain
Business line:	Buyout
First invested in:	2008
Valuation basis:	Earnings
Proportion of equity shares held:	38.1%
Residual cost:	£99m
Valuation:	£103m

9 **3i India Infrastructure Holdings Limited**[2]

Fund investing in Indian Infrastructure

Geography:	India
Business line:	Infrastructure
First invested in:	2007
Valuation basis:	Fund
Proportion of equity shares held:	21.2%
Residual cost:	£59m
Valuation:	£99m

10 **Hyva Investments BV**

hyva.com

Branded hydraulics for commercial vehicles

Geography:	Netherlands
Business line:	Buyout
First invested in:	2004
Valuation basis:	Earnings
Proportion of equity shares held:	44.2%
Residual cost:	£14m
Valuation:	£98m

[1] The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at investment.

[2] There is no website for 3i India Infrastructure Holdings Limited.

Forty other large investments

In addition to the ten largest investments shown, detailed below are forty other large investments which are substantially all of the Group's investments valued over £13 million. This does not include 10 investments that have been excluded for commercial reasons.

Investment Website Description of business	Business line Geography First invested in Valuation basis	Proportion of equity shares held	Residual cost £m	Valuation £m
NORMA Group Holding GmbH normagroup.com Provider of engineered joining technology	Buyout Germany 2005 Earnings	31.2%	27	97
Otnortopco AS (Axellia / Alpharma) alpharma.com Developer and supplier of specialist active pharmaceutical ingredients	Buyout Norway 2008 Earnings	46.3%	70	89
Sortifandus, S.L. (GES – Global Energy Services) services-ges.com Wind power service provider	Buyout Spain 2006 Earnings	42.8%	41	87
Mayborn Group Plc mayborngroup.com Manufacturer and distributor of baby products	Buyout UK 2006 Earnings	37.9%	78	85
Navayuga Group necltd.com Engineering and construction	Growth India 2006 Earnings	10.0%	23	76
Mold-Masters Luxembourg Holdings S.A.R.L. moldmasters.com Plastic processing technology provider	Growth Canada 2007 Earnings	49.3%	85	70
Labco SAS labco.eu Clinical laboratories	Growth France 2008 Earnings	12.3%	65	68
Cornwall Topco Limited (Civica) civica.co.uk Public sector IT and services	Buyout UK 2008 Earnings	40.6%	73	66
Tato Holdings Limited[1] Manufacture and sale of speciality chemicals	SMI[3] UK 1990 Earnings	26.0%	2	52
Scandferries Holding GmbH (Scandlines) scandlines.de Ferry operator in the Baltic Sea	Buyout Germany 2007 Other	22.7%	31	46
Azelis Holding S.A. azelis.com Distributor of speciality chemicals, polymers and related services	Buyout Luxembourg 2007 Earnings	32.1%	31	41
Joyon Southside[1] Real estate	Growth China 2007 DCF	49.9%	26	39
Beijing Digital Telecom Co. Limited dixintong.com Mobile phone retailer	Growth China 2006 Earnings	17.4%	11	38
Radius Systems Limited radius-systems.com Manufacture of thermoplastic pipe systems for gas and water distribution	Buyout UK 2008 Earnings	31.6%	30	37
KemFine Oy kemfine.com Manufacturer of fine chemicals	Buyout Finland 2004 Earnings	35.0%	22	36
Inspecta Holding Oy inspecta.fi Supplier of testing and inspection services	Buyout Finland 2007 Earnings	39.2%	46	34

Investment Website Description of business	Business line Geography First invested in Valuation basis	Proportion of equity shares held	Residual cost £m	Valuation £m
Everis Participaciones S.L. everis.com IT consulting business	Growth Spain 2007 Earnings	18.3%	30	33
Asia Strategic Medtech Holdings (Mauritius) Limited (LHI) lhitechnology.com Medical cable assemblies	Buyout China 2008 Earnings	37.5%	16	31
Ålö Intressenter AB alo.se Manufacturer of front end loaders	Growth Sweden 2002 Earnings	35.2%	37	31
AES Engineering Limited aesseal.co.uk Manufacturer of mechanical seals and support systems	Growth UK 1996 Earnings	40.8%	30	29
RBG Limited rbgltd.com Oil and gas service provider	Buyout UK 1996 Earnings	39.5%	4	28
Periclimenco, SL (Panreac Quimica, S.A.) panreac.com Manufacturer of chemicals for analysis	Buyout Spain 2005 Earnings	27.7%	15	27
DC Druck Chemie GmbH druckchemie.com Business services	Buyout Germany 2008 Earnings	44.3%	26	26
Franklin Offshore International Pte Limited franklin.com.sg Manufacture, installation and maintenance of mooring and rigging equipment	Growth Singapore 2007 Earnings	30.9%	16	26
Hobbs Holding No. 1 Limited hobbs.co.uk Retailer of women's clothing and footwear	Buyout UK 2004 Earnings	42.2%	55	26
Kneip Communication SA kneip.com Outsourced publication of investment fund data	Growth Luxembourg 2007 Earnings	42.9%	25	26
Soya Concept AS soyaconcept.com Fashion design company	Growth Denmark 2007 Earnings	44.1%	13	25
Boomerang TV, S.A. grupoboomerangtv.com Production of audiovisual contents	Growth Spain 2008 Earnings	34.1%	23	22
Goromar XXI, S.L. (Esmalglass) esmalglass.com Manufacture of frites, glazes and colours for tiles	Buyout Spain 2002 Earnings	21.6%	20	21
Refresco Group B.V. refresco.com Manufacturer of private label juices, still drinks and carbonated drinks	Growth Netherlands 2010 Earnings	12.7%	21	21
Consultim Finance SAS cerenicimo.fr Wholesaler of rental real estate	Growth France 2007 Earnings	20.0%	12	21
Polyconcept Investments B.V. polyconcept.com Supplier of promotional products	Growth Netherlands 2005 Earnings	13.0%	21	21
Hyperion Insurance Group Limited[2] hyperiongrp.com Specialist insurance intermediary	Growth UK 2008 Other	19.1%	22	19

Investment Website	Business line Geography First invested in	Proportion of equity shares	Residual cost	Valuation

Description of business	Valuation basis	held	£m	£m
Pearl (AP) Group Limited (Agent Provocateur) agentprovocateur.com Women's lingerie and associated products	Buyout UK 2007 Other	39.0%	35	18
Indiareit Offshore Fund[1] Indian real estate fund	Growth India 2006 Fund	20.0%	21	17
MKM Building Supplies (Holdings) Limited mkmbs.co.uk Building material supplier	Growth UK 1998 Earnings	30.3%	13	17
La Sirena lasirena.es Specialist frozen food retailer	Buyout Spain 2006 Earnings	47.3%	36	15
Mosaicon S.p.A.[1] Designer and retailer of affordable luxury branded leather accessories	Buyout Italy 2008 Earnings	35.8%	52	14
Dirickx Groupe SA dirickx.com Manufacture and distribution of fences and Security equipment	Growth France 2004 Sale	12.9%	4	13
Shearings Group Limited shearings.com Tour operator	Buyout UK 1997 Earnings	36.6%	1	13

1 No company website available for this investment

2 Reflects the partial sale of Hyperion to the Growth Capital Fund which is subject to regulatory approval

3 SMI refers to "Smaller Minority Investments"

Statement of Directors' responsibilities

The Directors confirm to the best of their knowledge that:

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

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

The Directors of 3i Group plc and their functions are set out below:

Baroness Hogg, Chairman
Michael Queen, Chief Executive and executive Director
John Allan, Non-executive Director (from 1 September 2009)
Alistair Cox, Non-executive Director (from 1 October 2009)
Richard Meddings, Non-executive Director
Willem Mesdag, Non-executive Director
Christine Morin-Postel, Non-executive Director
Robert Swannell, Non-executive Director and Senior Independent Director
Julia Wilson, Finance Director and executive Director.

By order of the Board

K J Dunn Secretary
12 May 2010