

Business review Our strategy

Achieving our vision depends upon a clear strategy, ensuring that we measure our progress towards reaching our strategic goals and taking account of the key risks involved and how they change. Here is a summary of where we are today.

Strategy

Invest in high-return assets

Achieving our vision and delivering our return objectives across the cycle, depends upon making high-quality investments.

Grow our assets and those we manage and advise on behalf of third parties

Combining growth in assets with our investment disciplines will enable us to grow shareholder value.

Extend our international reach, directly and through investing in funds

International expansion supports asset growth, provides competitive advantage and delivers significant added value to our portfolio companies.

Use our balance sheet and resources to develop existing and new business lines

3i's permanent capital base, FTSE 100 status, credit rating and strong cash flow provide the platform, resources and credibility to grow.

Continue to build our strong culture of operating as one company across business lines, geographies and sectors

Every aspect of our vision depends upon our people, the strength of their relationships and the way they work together.

Progress

- Gross portfolio return, one of the key investment performance measures, averaged 25% over the last three years.
- Measures of current portfolio health for each of our business lines are strong.

- Total funds under management grew by 25% in the year to 31 March 2007 to £7,134 million.
- The average investment size (£26 million) has trebled over the last four years.
- The closing of the €5 billion mid-market buyout fund, Eurofund V.
- The £700 million listing of 3i Infrastructure Limited on the London Stock Exchange.

- The proportion of assets outside the UK has steadily increased to 59% at 31 March 2007.
- With the opening of new offices in Beijing and New York, 18 of 3i's 23 offices are now outside the UK.
- The value of the portfolio in Asia rose by 123% in the year to £373 million.
- 3i's investments in eight private equity funds around the world further extend our reach.

- Buyouts and Growth Capital have increased investment by 77% and 51% respectively over the last three years.
- Venture Capital has increased the proportion of late-stage investment from 44% to 65% during the last financial year.
- During the year, two new business lines were established, Infrastructure and Quoted Private Equity.

- Our 2007 staff engagement survey shows a very high level of engagement and commitment to 3i's goals. Employee engagement is the extent to which employees are committed to their role, their team and the Group and its objectives.
- Our People Programmes for Chairmen and Chief Executives are now operating in Europe, Asia and the US.

Key risk factors

- Quality of origination, review and execution processes.
- Pricing of assets on entry and exit.
- Strength of asset management.
- Timing of exit.

- Need to build capabilities before committing capital.
- Adequacy of Group funding for balance sheet investing.
- Availability of third party investors to build assets under management.

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

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

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

Performance

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

05	16.7
06	24.4
07	34.0

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

05	4,317	1,913
06	4,139	1,573
07	4,362	2,772

■ 3i's direct portfolio ■ Managed and advised by 3i

Portfolio value by geography as at 31 March

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

Funds raised as at 31 March 2007

3i Infrastructure Limited (£m)	325	375
Eurofund V (€m)	2,780	2,220

■ 3i commitment ■ External commitment

Employee engagement

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