

Directors' report – statutory and corporate governance information

This section of the Directors' report contains statutory and corporate governance information for the year to 31 March 2007 ("the year").

Principal activity

3i Group plc is a world leader in private equity and venture capital. The principal activity of the Company and its subsidiaries ("the Group") is investment. It invests in a wide range of growing independent businesses. Its objective is to maximise shareholder value through growth in total return.

Tax and investment company status

The Company is an investment company as defined by section 266 of the Companies Act 1985 and carries on business as an investment trust.

HM Revenue & Customs has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period to 31 March 2006. Since that date the Company has directed its affairs to enable it to continue to be so approved.

Regulation

3i Investments plc, a wholly owned subsidiary of the Company, is authorised and regulated by the FSA under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities.

Results and dividends

The financial statements of the Company and the Group for the year to 31 March 2007 appear on pages 74 to 97.

Total recognised income and expense for the year was £1,075 million (2006: £831 million). An interim dividend of 5.8p per share in respect of the year to 31 March 2007 was paid on 3 January 2007.

The Directors recommend a final dividend of 10.3p per share be paid in respect of the year to 31 March 2007 to shareholders on the register at the close of business on 22 June 2007.

The trustee of The 3i Group Employee Trust ("the Employee Trust") has waived (subject to certain minor exceptions) all dividends declared by the Company after 26 May 1994 in respect of shares from time to time held by the Employee Trust (currently 9,708,553 shares). In addition, holders of certain performance share awards granted under The 3i Group Discretionary Share Plan in respect of an aggregate of 1,222,851 ordinary shares, have waived all dividends in relation to those shares for the duration of the three year performance periods relating to the awards.

Operations

The Group operates through a network of offices in Europe, Asia and the US. The Group manages a number of funds established with major institutions and other investors to make equity and equity-related investments predominantly in unquoted businesses in Europe and Asia and advises 3i Infrastructure Limited, a UK listed investment company established to make investments in infrastructure assets.

Management arrangements

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. Contracts for these investment management and other services, for which regulatory authorisation is required, provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

3i plc provides the Group with certain corporate and administrative services, for which no regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services together with a performance fee based on realised profits on the sale of assets. The administrative services contract between 3i plc and 3i Investments plc may be terminated by either party on three months' notice. The administrative services contracts between 3i plc and other Group companies may be terminated by either party on reasonable notice.

Business review

The Group's development during the year to 31 March 2007, its position at that date and the Group's likely future development are detailed in the Chairman's statement on page 3, the Chief Executive's statement on pages 6 and 7 and the Business review on pages 8 to 39.

Share capital

Ordinary shares

Pre-consolidation ordinary share

capital movements The issued share capital of the Company as at 1 April 2006 was 550,556,502 ordinary shares of 53¹/₄p each. This increased by 603,757 shares to 551,160,259 ordinary shares of 53¹/₄p each in the period from 1 April 2006 to 16 July 2006 on the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme.

Consolidation of ordinary share capital

Pursuant to resolutions passed at an Extraordinary General Meeting ("EGM") of the Company on 12 July 2006, the issued ordinary share capital of the Company, of 551,160,259 ordinary shares of 53¹/₄p each, was on 17 July 2006 consolidated into 466,366,373 ordinary shares of 62⁶⁹/₈₈p each.

Post-consolidation ordinary share capital

movements At the Annual General Meeting ("AGM") in July 2006, the Directors were authorised to repurchase up to 55,057,000 ordinary shares in the Company (representing approximately 10% of the Company's issued share capital as at 10 May 2006) until the Company's AGM in 2007 or 11 October 2007, if earlier. In the year to 31 March 2007, the Company repurchased and cancelled 7,430,000 ordinary shares of 62⁶⁹/₈₈p each (representing 1.56% of the nominal value of the Company's total called-up share capital as at 17 July 2006) pursuant to this authority for an aggregate consideration of £73,540,060.

These shares were repurchased as part of the Company's arrangements to return capital to shareholders.

In the period from 17 July 2006 to 31 March 2007, a total of 2,169,634 ordinary shares of 62⁶⁹/₈₈p were issued (to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme).

Accordingly, between 17 July 2006 and 31 March 2007, the share capital of the Company decreased by 5,260,366 ordinary shares to 461,106,007 ordinary shares of 62⁶⁹/₈₈p each.

B shares

B share issue Pursuant to resolutions passed at the EGM on 12 July 2006:

- (a) the authorised share capital of the Company was increased by the creation of 610,000,000 B shares (cumulative preference shares of 1p each); and
- (b) on 17 July 2006, the Company issued 551,160,259 B shares on the basis of 1 new B share for each ordinary share of 53¹/₈p held on the register of members on 14 July 2006.

B share repurchases At the EGM on 12 July 2006, the Directors were authorised to repurchase up to 610,000,000 B shares in the Company until the Company's AGM in 2007. In the year to 31 March 2007, the Company repurchased and cancelled 542,530,279 B shares (representing 1.82% of the nominal value of the Company's total called-up share capital as at 17 July 2006) pursuant to this authority for an aggregate consideration of £689,013,454. These shares were repurchased as part of the Company's arrangements to return capital to shareholders. Accordingly, 8,629,980 B shares remained in issue as at 31 March 2007.

Major interests in ordinary shares

As at 2 May 2007, the Company had been notified of the following interests in the Company's ordinary share capital in accordance with Chapter 5 of the FSA's Disclosure Rules and Transparency Rules.

	%	Number of ordinary shares* as at 2 May 2007
AXA S.A. and its group of companies	9.84	45,367,259
The Goldman Sachs Group Inc	7.19	33,148,582
BlackRock Investment Management (UK) Limited	4.93	22,737,966
Prudential plc group of companies	3.95	18,254,412
Legal & General Group plc and/or its subsidiaries	3.61	16,685,941

*Each ordinary share carries one voting right.

Directors' interests

The interests of the Directors (all of which are beneficial) in the shares of the Company up to 31 March 2007 as stated in the register of directors' interests are shown below.

Ordinary share interests stated before the Company's share consolidation on 17 July 2006 relate to ordinary shares of 53¹/₈p each while those stated after that date relate to ordinary shares of 62⁶⁹/₈₈p each. The B share interests of the Directors are also set out below.

	Ordinary shares		B shares	
	31 March 2007 (or date of cessation if earlier)	1 April 2006 (or date of appointment if later)	31 March 2007 (or date of cessation if earlier)	1 April 2006 (or date of appointment if later)
Baroness Hogg	18,772	18,686	–	–
O H J Stocken	21,944	20,026	–	–
P E Yea	595,947	379,460	192,114	–
S P Ball	174,570	30,422	25,843	–
C J M Morin-Postel	1,598	1,872	1,872	–
M J Queen*	382,493	327,697	109,910	–
F D Rosenkranz	23,893	28,238	–	–
Sir Robert Smith	8,455	3,952	–	–
F G Steingraber	–	–	–	–
R W A Swannell (appointed 1 September 2006)	11,000	11,000	–	–
Dr P Mihatsch (until 31 July 2006)	–	–	–	–

*Mr M J Queen also had a beneficial interest in conditional rights to acquire ordinary shares arising from a performance linked award under the Management Equity Investment Plan, described on page 72.

The share interests shown above for each of Mr P E Yea, Mr S P Ball and Mr M J Queen include Performance Share awards and Super-performance Share awards which are subject to forfeiture and are detailed in the tables on pages 67 and 68 respectively.

Directors' report – statutory and corporate governance information continued

Each of the employees of the Group (including each of the executive Directors) is a potential beneficiary of the Employee Trust and as such was, during the year to 31 March 2007, interested (within the meaning of section 324 of the Companies Act 1985) in the shares held by the trust (other than in certain shares held by the trust as nominee on behalf of specific individuals). The trust held 11,080,758 ordinary shares as at 1 April 2006 and 10,931,404 ordinary shares as at 31 March 2007. These numbers of ordinary shares include the ordinary shares over which Mr M J Queen had conditional rights to acquire under the Management Equity Investment Plan; and the ordinary shares relating to the Super-performance Share awards made to Mr P E Yea, Mr S P Ball and Mr M J Queen.

Details of Directors' share options under the Group's executive share option plans are shown in the Directors' remuneration report on page 66.

In the period from 1 April 2007 to 2 May 2007, the following Directors became beneficially interested in the number of additional shares shown: Mr P E Yea (33 ordinary shares), Mr S P Ball (33 ordinary shares) and Mr M J Queen (33 ordinary shares). In addition, as at 2 May 2007, the number of ordinary shares held by the Employee Trust was 10,931,404.

Save as detailed above, no Director had any disclosable interest in the shares, debentures or loan stock of the Company or in the shares, debentures or loan stock of its subsidiaries during the period and there have been no changes in the above interests between 1 April 2007 and 2 May 2007.

Corporate governance

Throughout the year, the Company complied with the provisions of section 1 of the Combined Code on corporate governance published by the Financial Reporting Council in July 2003.

The Company's approach to corporate governance

The Company has a policy of seeking to comply with established best practice in the field of corporate governance. The Board has adopted core values and Group standards which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and other stakeholders of the Company. One of the core values communicated within the Group is a belief that the highest standard of integrity is essential in business.

The Board's responsibilities and processes

The Board is responsible to shareholders for the overall management of the Group. It determines matters including financial strategy and planning and takes major business decisions. The Board has put in place an organisational structure. This is further described under the heading "internal control".

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

- approval of the Group's overall strategy, strategic plan and annual operating budget;
- approval of the Company's interim and annual financial statements and changes in the Group's accounting policies or practices;
- changes relating to the capital structure of the Company or its regulated status;
- major capital projects;
- major changes in the nature of business operations;

- investments and divestments in the ordinary course of business above certain limits set by the Board from time to time;
- adequacy of internal control systems;
- appointments to the Board and Management Committee;
- principal terms and conditions of employment of members of Management Committee; and
- changes in employee share schemes and other long-term incentive schemes.

Matters delegated to management include implementation of the Board approved strategy, day-to-day operation of the business, the appointment of all executives below Management Committee and the formulation and execution of risk management policies and practices.

A Group succession and contingency plan is prepared by management and reviewed periodically by the Board. The purpose of this plan is to identify suitable candidates for succession to key senior management positions, agree their training and development needs, and ensure the necessary human resources are in place for the Company to meet its objectives.

Meetings of the Board During the year, there were six meetings of the Board of Directors. The Directors who served throughout the year attended all six meetings, save for Mr F G Steingraber who attended five meetings. Mr R W A Swannell attended the four meetings held since his appointment on 1 September 2006 and Dr P Mihatsch attended the two meetings held before his retirement as a Director on 31 July 2006.

The principal matters considered by the Board during the year included:

- the Group strategic plan, budget and financial resources;
- the Group's capital structure, balance sheet efficiency and the return of capital to shareholders;
- regular reports from the Chief Executive;
- co-investment arrangements for investment staff;
- the recommendations of the Valuations Committee on valuations of investments;
- the Company's share price performance and shareholder perceptions following the release of year end results;
- the raising of the Group's latest European Buyout Fund;
- the raising of a fund for infrastructure investment;
- establishing a Quoted Private Equity team to apply private equity management skills to small and mid-cap listed companies;
- risk management arrangements and investment approval process;
- a review of the Group's advisory and corporate broking relationships;
- independence of non-executive Directors;
- the valuation methodology, investment strategy and the composition of the trustees of The 3i Group Pension Plan; and
- corporate responsibility initiatives and performance.

Information Reports and papers are circulated to the Directors in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

Performance evaluation During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. The Chairman led the process with the aid of an external consultant. All Board members completed a questionnaire and gave personal views to the Chairman, who also sought views from all members of the Management Committee. The Chairman gave feedback to the Board and to individual Directors. These processes also involved evaluation by members of Board committees of their performance. The Senior Independent Director led a review by the Directors of the performance of the Chairman.

Following the completion of the above process, the Board concluded that:

- it had benefited from having two strategy sessions during the year (in addition to its regular Board meetings), dealing with high level issues and specific issues respectively, and that this practice should be continued;
- as the number of business lines had increased, the amount of time spent on specific strategic issues relating to them would also increase;
- it should continue the practice of holding at least one meeting a year away from the Company's head office in order to enable members to spend time with the executives responsible for building the Company's global capability;
- the preparation for succession planning had been beneficial and the Board invited more opportunities to engage with those executives likely to be promoted to Management Committee;
- it should continue the process of adding external capability to the Board to match changes in the Group's international commercial business and in financial markets; and

- consideration should be given as to how further external input into the Board review process could supplement existing processes.

The roles of the Chairman and the Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined and has been approved by the Board.

The Chairman The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors. The Chairman ensures that regular reports from the Company's brokers are circulated to the non-executive Directors to enable non-executive Directors to remain aware of shareholders' views. The Chairman ensures effective communication with the Company's shareholders.

The Chief Executive The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive has formed a committee called Management Committee to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises the executive Directors, the Company Secretary, Mr B N Carnegie-Brown, Ms D R Collis, Mr C P Rowlands, Mr J B C Russell, Mr A J M Taylor, Mr P Waller and Mr G A R Zarzavatdjan. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Directors' report – statutory and corporate governance information continued

Senior Independent Director

The Board has appointed Mr O H J Stocken as Senior Independent Director, to whom, in accordance with the Combined Code, concerns can be conveyed.

Directors

The Board comprises the Chairman, six independent non-executive Directors and three executive Directors. Biographical details for each of the Directors are set out on page 49. Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball, Mme C J M Morin-Postel, Mr M J Queen, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber served throughout the period under review. Mr R W A Swannell served as a Director from 1 September 2006. Dr P Mihatsch served as a Director until 31 July 2006. As stated in the Notice of AGM for 2006, Mr F D Rosenkranz will be retiring from the Board at the conclusion of the 2007 AGM.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgment to bear on issues of strategy, performance, resources and standards of conduct, and to help the Board provide the Company with effective leadership. They are also expected to ensure high standards of financial probity on the part of the Company and to monitor the effectiveness of the executive Directors.

The Board's discussions, and its approval of the Group's strategic plan and annual budget, provide the non-executive Directors with the opportunity to contribute to and validate management's plans and assist in the development of strategy. The non-executive Directors receive regular management accounts, reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives.

Directors' independence All the non-executive Directors (other than the Chairman, who was independent on appointment) are considered by the Board to be independent for the purposes of the Combined Code. The Board assesses and reviews the independence of each of the non-executive Directors at least annually having regard to the potential relevance and materiality of a Director's interests and relationships rather than applying rigid criteria in a mechanistic manner.

No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' employment contracts Details of executive Directors' employment contracts are set out in the Directors' remuneration report on page 72.

Training and development The Company has developed a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to update their skills and maintain their familiarity with the Company and its business continually. Presentations on different aspects of the Company's business are made regularly to the Board. On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment or support teams.

During the year the Directors received training on anti money-laundering, the changes to the Combined Code on Corporate Governance, developments in relation to the implementation of the Transparency Directive and Companies Act 2006 and changes to the Listing Rules. Non-executive Directors also received presentations on specific aspects of the Company's business. During the year, the Company also held an Environmental Awareness day in which both staff and Directors participated.

The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

Re-election Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive Directors are appointed for an initial period of three years. Before the third and sixth anniversaries of a non-executive Director's first appointment, the Director discusses with the Board whether it is appropriate for a further three year term to be served. The reappointment of non-executive Directors who have served for more than nine years is subject to annual review.

The Company's Articles of Association provide for:

- (a) Directors to retire at the first AGM after their appointment by the Board and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation at each AGM; and
- (b) all Directors to retire at least every three years.

Subject to the Articles of Association, retiring Directors are eligible for reappointment.

In accordance with the Articles of Association, at the AGM to be held on 11 July 2007:

- (i) Mr R W A Swannell, having been appointed as a Director since the AGM in 2006, will retire and, being eligible, offer himself for reappointment; and
- (ii) Baroness Hogg, Mr P E Yea and Mr F G Steingraber will retire by rotation and, being eligible, offer themselves for reappointment.

The Board's recommendation for the reappointment of Directors is set out in the Notice of AGM.

Directors' indemnities The Company's Articles of Association provide that, subject to the provisions of the Companies Acts, the Directors shall be indemnified against liabilities incurred by them as Directors in defending any proceedings in which judgment is given in their favour, or where they have been acquitted or been granted relief by the court. As permitted by the Companies (Audit, Investigations and Community Enterprise) Act 2004 and the Company's Articles of Association, the Company has maintained Qualifying Third-Party Indemnity Provisions (as defined under section 309B of the Companies Act 1985) for the benefit of the Company's Directors and the Company Secretary throughout the period.

Under the rules of the 3i Group Pension Plan ("the Plan"), the Company has granted an indemnity to the directors of Gardens Pension Trustees Limited (a corporate trustee of the Plan and a wholly owned subsidiary of the Company) against liabilities incurred as directors of that corporate trustee.

The Board's committees

The Board is assisted by various standing committees of the Board which report regularly to the Board. The membership of these committees is regularly reviewed by the Board. When considering committee membership and chairmanship, the Board aims to ensure that undue reliance is not placed on particular Directors.

These committees all have clearly defined terms of reference which are available at www.3igroup.com. The terms of reference of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee provide that no one other than the particular committee chairman and members may attend a meeting unless invited to attend by the relevant committee.

Audit and Compliance Committee

The Audit and Compliance Committee comprises Mr O H J Stocken (Chairman), Mme C J M Morin-Postel, Mr F D Rosenkranz and Sir Robert Smith, all of whom served throughout the period. All the members of the Committee are independent non-executive Directors. The Board is satisfied that the Committee Chairman, Mr O H J Stocken, has recent and relevant financial experience.

During the year, there were four meetings of the Committee all of which were attended by all members of the Committee save that Mme C J M Morin-Postel attended three of the four meetings.

During the year, the Committee:

- reviewed the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements and received reports on bank covenants, third-party liabilities and off-balance sheet liabilities;
- reviewed and recommended to the Board the accounting disclosures comprised in the interim and annual financial statements of the Company and reviewed the scope of the annual external audit plan and the external audit findings;
- reviewed matters relating to the Group's key performance measures, International Financial Reporting Standards and financial reporting requirements arising from the implementation of the Transparency Directive;
- received regular reports from Group Risk Assurance and Audit (the Group's internal audit function), monitored its activities and effectiveness, and agreed the annual internal audit plan;
- received regular reports from Group Compliance (the Group's regulatory compliance function) and Group Risk Management Committee, and monitored their activities and effectiveness;
- oversaw the Company's relations with its external auditors including assessing auditor performance, independence and objectivity, recommending the auditors' reappointment and approving the auditors' fees;
- met with the external auditors and the heads of Group Compliance and Group Risk Assurance and Audit individually, all in the absence of management;
- considered whether matters existed which could give rise to conflicts of interests between Directors and the Company.

Directors' report – statutory and corporate governance information continued

Remuneration Committee

The Remuneration Committee comprises Sir Robert Smith (Chairman), Mme C J M Morin-Postel, Mr F D Rosenkranz, Mr F G Steingraber and Mr O H J Stocken all of whom served throughout the period. Sir Robert Smith succeeded Mr F D Rosenkranz as Chairman of the Committee with effect from 1 August 2006. All the members of the Committee are independent non-executive Directors. During the year, there were six meetings of the Remuneration Committee all of which were attended by all members of the Committee, save that Mr F G Steingraber attended five of the six meetings. Details of the work of the Remuneration Committee are set out in the Directors' remuneration report.

Nominations Committee

The Nominations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr R W A Swannell, Mme C J M Morin-Postel, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber, all of whom served throughout the period, save for Mr R W A Swannell who served from 27 September 2006. Dr P Mihatsch served as a member of the Committee until 31 July 2006. During the year, there were two meetings of the Nominations Committee. The members who served throughout the year attended both of these meetings save that Mr F G Steingraber attended one meeting. Mr R W A Swannell attended the one meeting held following his appointment. Dr P Mihatsch was unable to attend the one meeting held before he ceased to be a Committee member on 31 July 2006. The terms of reference of the Nominations Committee provide that the Chairman of the Board shall not chair the Committee when dealing with the appointment of the Chairman's successor.

During the year, the Nominations Committee considered and recommended a candidate for appointment as a non-executive Director of the Company. The Committee also considered the composition of the Board to ensure that the balance of its membership, as between executive and non-executive Directors, and non-executive Directors' length of service remained appropriate.

A formal, rigorous and transparent process for the appointment of Directors has been established with the objective of identifying the skills and experience profile required of new Directors and identifying suitable candidates. The procedure includes the appraisal and selection of potential candidates, including (in the case of non-executive Directors) whether they have sufficient time to fulfil their roles. Specialist recruitment consultants assist the Committee to identify suitable candidates for appointment. The Committee's recommendations for appointment are put to the full Board for approval.

Valuations Committee

The Valuations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball and Mr R W A Swannell, all of whom served throughout the period, save that Mr R W A Swannell served from 27 September 2006. Dr P Mihatsch served as a member of the Committee until 31 July 2006. There were three meetings of the Valuations Committee during the year. The members who served throughout the year attended all meetings. Mr R W A Swannell attended the one meeting held following his appointment and Dr P Mihatsch attended the one meeting held before he ceased to be a Committee member.

During the year, the Valuations Committee considered and made recommendations to the Board on valuations of the Group's investments to be included in the interim and annual financial statements of the Group and reviewed valuations policy and methodology.

The Company Secretary

All Directors have access to the advice and services of the Company Secretary. The Company Secretary is responsible for advising the Board, through the Chairman, on governance matters. The Company's Articles of Association and the schedule of matters reserved to the Board or its duly authorised committees for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Relations with shareholders

The Board recognises the importance of maintaining a purposeful relationship with the Company's shareholders. The Chief Executive and the Finance Director, together with the Group Communications Director, meet with the Company's principal institutional shareholders to discuss relevant issues as they arise. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required.

The Board receives reports from the Company's brokers on shareholder issues and non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

The Company's major shareholders are offered the opportunity to meet newly-appointed non-executive Directors. During the year such shareholders were given the opportunity to meet Mr R W A Swannell following his appointment on 1 September 2006.

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are made by the Chief Executive and the Finance Director. The Chairmen of the Remuneration, Audit and Compliance, and Nominations Committees are available to answer shareholders' questions.

During the year, at the invitation of the Chairman, the Company's major shareholders met with the Chairman, the Chairmen of the Audit and Compliance Committee and the Remuneration Committee and the Company Secretary to discuss matters of corporate governance and corporate responsibility relevant to the Company and its shareholders.

The Notice of AGM for 2006 was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website. In accordance with the Company's Articles of Association, on each poll every member who was present in person or by proxy had one vote for each share held.

Portfolio management and voting policy

In relation to unquoted investments, the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts. In relation to quoted investments, the Group's policy is to exercise voting rights on matters affecting the interests of the Group.

Internal control

The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised committees for decision, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority.

The Board considers and approves a strategic plan every two years and approves a budget on an annual basis. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

The Group Risk Management Committee is a management committee formed by the Chief Executive and its purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year to 31 March 2007 and up to the date of this report.

With effect from 1 March 2007, the Group Risk Management Committee's activities were supported by not only the established activities of Investment Committee but also by two new committees: Financial Risk Committee and Operational Risk Committee. Details of the new risk management framework can be found in the Risk management section of the Business review on pages 26 to 31.

The overall internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the internal control guidance for Directors on the Combined Code issued by the Turnbull Committee. The process established for the Group includes:

Policies

- core values, Group standards and Group controls together comprising the Group's high level principles and controls, with which all staff are expected to comply;
- manuals of policies and procedures, applicable to all business units, with procedures for reporting weaknesses and for monitoring corrective action;
- a code of business conduct, with procedures for reporting compliance therewith;

Processes

- appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities;
- a planning framework which incorporates a Board approved strategic plan, with objectives for each business unit;
- formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas;
- the setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learnt;
- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance measures and regular re-forecasting;
- regular treasury reports to the Board, which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to interest and exchange rate movements and record the level of compliance with the Group's funding objectives;

Directors' report – statutory and corporate governance information continued

- a Group Compliance function whose role is to integrate regulatory compliance procedures into the Group's systems;
- well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post investment reviews;

Verification

- a Group Risk Assurance and Audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management;
- the external auditors who are engaged to express an opinion on the annual financial statements;
- an Audit and Compliance Committee which considers significant control matters and receives reports from Group Risk Assurance and Audit and the external auditors and the Group Compliance function on a regular basis.

The internal control system is monitored and supported by a Group Risk Assurance and Audit function which operates on an international basis and reports to management and the Audit and Compliance Committee on the Group's operations. The work of Group Risk Assurance and Audit is focused on the areas of greatest risk to the Group determined on the basis of the Group's risk management process. The external auditors independently and objectively review the approach of management to reporting operating results and financial condition. In co-ordination with Group Risk Assurance and Audit, they also review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion.

Employment

The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

The Group treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs.

Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group.

The Group also provides financial support to disabled employees who are unable to work, as appropriate to local market conditions.

The Group's principal means of keeping in touch with the views of its employees are through employee appraisals, informal consultations, team briefings, and staff conferences and surveys. Managers throughout the Group have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

The Group has clear grievance and disciplinary procedures in place, which include comprehensive procedures on discrimination and the Group's equal opportunities policy. The Group also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all staff and their families in the UK.

There are clearly defined staff policies for pay and working conditions. The Group's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the cost element of these rewards remains at an appropriate level.

The Group's remuneration policy is influenced by market conditions and practices in the countries in which it operates.

All employees receive a base salary and are eligible for a performance related bonus. Where appropriate, employees are eligible to participate in Group share schemes to encourage employees' involvement in the performance of the Group. Investment executives may also participate in co-investment plans and carried interest schemes, which allow executives to share directly in the future profits on investments. Further details of these plans are set out in the Directors' remuneration report. Employees participate in local state or company pension schemes as appropriate to local market conditions.

Charitable and political donations

Charitable donations made by the Group in the year to 31 March 2007 amounted to £429,409. Excluding the Company's matching of Give As You Earn contributions by staff, charitable donations amounted to £322,524. Of this amount approximately 58% were donated to causes which aim to relieve poverty or benefit the community, or both, approximately 12% were donated to charities which advance education, and approximately 9% were donated to medical charities. Further details of charitable donations are set out in the Corporate responsibility report on pages 40 to 47.

In line with Group policy, no donations were made to political parties during the year.

Under the Companies Act 1985, as amended, the Company is required to disclose particulars of any donation to any EU political organisation and EU political expenditure incurred during the year.

During the period, 3i plc, the main operating company of the Group, made a payment to one organisation, detailed below, which may fall within the definition of donations to EU political organisations. This payment was an annual subscription to the Industry Forum of £3,407.

Policy for paying creditors

The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors during the year. 3i plc had trade creditors outstanding at the year end representing on average 19 days' purchases.

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the profit for the year. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Suitable accounting policies, which follow generally accepted accounting practice and are explained in the notes to the financial statements, have been applied consistently and applicable accounting standards have been followed. In addition, these financial statements comply with International Financial Reporting Standards as adopted by the European Union and reasonable and prudent judgments and estimates have been used in their preparation.

Going concern

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing the financial statements.

Auditors' independence and objectivity

Subject to annual appointment by shareholders, auditor performance is monitored on an ongoing basis and formally reviewed every five years, the next review being scheduled for 2008. The Audit and Compliance Committee reviewed auditor performance during the year and concluded that Ernst & Young LLP's appointment as the Company's auditors should be continued.

The Committee recognises the importance of ensuring the independence and objectivity of the Company's auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees. The Audit and Compliance Committee Chairman is notified of all assignments allocated to Ernst & Young over a set threshold, other than those related to due diligence within the Group's investment process where the team engaged would be independent of the audit team. Safeguards have been put in place to reduce the likelihood of compromising auditor independence, including the following principles which are applied in respect of services provided by the auditors and other accounting firms and monitored by the Audit and Compliance Committee:

- services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors;
- services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records; for example, corporate tax services. This work is normally allocated to the auditors subject to consideration of any impact on their independence;

- services that could be provided by a number of firms including general consultancy work. All significant consultancy projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team. Included in this category is due diligence work relating to the investment process. If this service were to be provided by the auditors, the specific team engaged would be independent of the audit team.

Details of the fees paid to the auditors are disclosed in note 6 to the financial statements on page 84.

Audit information

Pursuant to section 234ZA (2) of the Companies Act 1985, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Appointment of auditors

In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of Ernst & Young LLP as the Company's auditors will be put to members at the forthcoming AGM.

By order of the Board

A W W Brierley Secretary
9 May 2007

Registered Office:
16 Palace Street
London SW1E 5JD