

## Business review Group business

This review provides an overview of our main activities; principal markets; Group and business line performance; and risk management. It also describes our key financial performance measures and our performance against them.

### Introduction to the Group

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

There are detailed descriptions, performance data and commentaries for our Buyouts, Growth Capital and Venture Capital business lines on pages 12 to 23, together with case studies illustrating the nature and range of their investment activity. Our two new business lines, Infrastructure and Quoted Private Equity are also described on pages 24 and 25.

The Group's overall vision is to be the private equity firm of choice: operating on a world-wide scale; producing consistent market-beating returns; being acknowledged for our partnership style; and winning through our unparalleled resources. On pages 10 and 11 we have set out the strategy for achieving this vision, along with a summary of our progress, the key risk factors involved and statistics relating to our performance with respect to each key element of strategy.

3i's vision and strategy are regularly reviewed by the Group Board and the risk management framework as set out on pages 26 to 31 provides the framework for identifying, assessing and responding to risks in relation to executing that strategy and delivering our business objectives.

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

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

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

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

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

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

### 3i investment

#### teams:

Benelux  
China  
France  
Germany  
India  
Italy  
Nordic  
Singapore  
Spain  
Switzerland  
UK  
US



### 3i's investments in funds:

Central Europe  
China  
India  
Israel  
Japan  
Korea  
Russia  
United Arab Emirates

**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.**

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

As a returns-focused business, we set clear targets for our key performance measures at a Group and business line level and these are set out in detail for each business line on pages 12 to 25.

#### The key Group financial performance measures are:

	2007	2006
Total return	<b>26.8%</b>	22.5%
Gross portfolio return	<b>34.0%</b>	24.4%
Gearing	<b>0%</b>	1%
Net asset value growth	<b>193p</b>	125p

#### The key business line performance measures are:

Gross portfolio return  
Portfolio health  
Long-term IRRs by vintage

We employ a relatively small number of staff (an average of 765 for the year) for a FTSE 100 company, and they work in focused teams across 23 locations in three continents in a matrix structure.

The key dimensions of this matrix are business line, geography and sector, with each business line unified through common carried interest schemes and processes. Our professional service teams are incentivised on Group performance.

The high levels of staff engagement achieved by the Group, and reported on page 11, are supported by our "One room: One firm" culture. This is underpinned by a clear set of values and developed through combining capabilities and knowledge, aligning interests and by selecting the "best team for the job" from our internal and external resources around the world. Our culture is performance-based and highly-collaborative and requires continuous investment in our people and in our communications.

3i's values and our non-financial key performance measures are set out in our Corporate responsibility report on pages 40 to 47. This report also describes our approach and performance with respect to corporate responsibility, both from the perspective of 3i as a company and 3i as an investor.