The world is yours

3i Group plc Report and accounts 2004

3i is a world leader in private equity and venture capital. We focus on buy-outs, growth capital and venture capital and invest across Europe, in the United States and in Asia Pacific.

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.

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With thanks to the members of the 3i team who took part in the photography contained in this report.

"3i delivers a strong overall performance"

Financial highlights

Total return

£531m

Return on opening shareholders' funds

18.1%

Revenue profit before tax

£139m

Realised profits

£228m

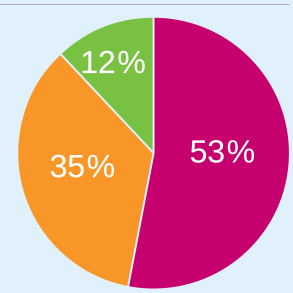
Dividend per share

14.0p

Total return	£531m
Return on opening shareholders' funds	18.1%
Revenue profit before tax	£139m
Realisation proceeds	£923m
Realised profits on disposal of investments	£228m
Unrealised profits on revaluation of investments	£336m
Investment (including co-investment funds)	£979m
Diluted net asset value per share	553p
Dividend per share	14.0p

Portfolio by value (£m) as at 31 March 2004

Buy-outs	2,306
Growth capital	1,487
Venture capital	533
Total	4,326



Chairman's statement

"a highly-focused business with good momentum"

At the time of our interim results announcement in November 2003, I noted that we had seen an encouraging performance in the first six months of the financial year, driven by better results from our buy-out, growth capital and venture capital businesses. I also said that as business confidence improved there would be some excellent opportunities for 3i to invest. This has indeed proved to be the case.

The results for the year to 31 March 2004 demonstrate the improvement in each of our areas of activity. The total return for the year of £531 million represented 18.1% on opening shareholders' funds, a strong overall performance.

3i's share price performed well in the year to 31 March 2004. Total shareholder return of 54.4% compared with 31.0% for the FTSE All-Share total return index over the same period.

The Board is recommending a final dividend of 8.9p, making a total dividend of 14.0p, an increase of 3.7% from 13.5p last year.

The benefits of our product focus are now becoming clear. Geographically, 3i's returns in the UK, continental Europe and Asia Pacific were strong. Investment picked up well in the second half. Total new investment, including co-investment funds, was £979 million during the year as a whole. Realisations proceeds totalled £923 million and equity assets were sold at a 58% premium to their value at the start of the year.

In March 2004, 3i announced Brian Larcombe's intention to retire at the forthcoming Annual General Meeting in July.

Brian became our Chief Executive in 1997 and has been with the Company for almost 30 years. He joined the Board in 1992 and as Finance Director played a key role in the flotation of 3i in 1994. Under his leadership, the business has been transformed into a dynamic, integrated international business. The Board and I would like to thank him for this and pay tribute to his contribution to our industry as a whole.

The process for identifying Brian's successor is under way and we will be making an announcement by the Annual General Meeting.

Our staff have achieved a great deal over the year and the good performance of the Group is the result of not only some fine individual efforts but excellent teamwork. 3i's ability to put together the best team for the job from around the world is giving the business an edge and flexibility that few competitors can match.

For any company, corporate responsibility should be an important issue. I hope that you will see from this report that 3i takes its responsibilities seriously, not only as a company but also as an investor.

An essential element of the governance of 3i is the work carried out by the committees of the Board. I would like to thank John Forrest, who is stepping down from the Board at the AGM, for all he has done for 3i in seven years as a non-executive Director, and particularly for his work in chairing the Remuneration Committee.

After three tough years for the Group, we now have a highly-focused business, clear competitive advantage, a strong balance sheet, good momentum on the new investment front and a healthy result for the year to 31 March 2004.

Our latest Enterprise Barometer survey indicates greater business confidence in our market place and augurs well for the year ahead.

Baroness Hogg
Chairman
12 May 2004

Chief Executive's statement

"much-improved portfolio health, good uplifts in value and strong realisation profits"

Results

I am pleased to report good results for the year with a total return of £531 million.

This significant improvement follows a three year period of substantial change for 3i, during which we refocused the investment business, restructured and slimmed down the organisation, and strengthened our investment processes. These changes, together with our continued international growth, are now delivering much-improved portfolio health, good uplifts in the value of the portfolio and strong realisation profits.

3i continues to lead the European market in our three chosen segments of mid-market buy-outs, growth capital and early stage technology ("venture capital").

As the year progressed, we increased the momentum of investment activity, which resulted in almost £1 billion being invested during the year, including co-investment funds.

For the year, our buy-out and growth capital businesses generated returns of 22.4% and 26.8% respectively. Our venture business delivered a substantial improvement, with a return of (6.0)%, though its return was broadly break-even before the impact of currency translation losses.

Our overall return of 18.1% can compare with performance data, produced by Thomson Venture Economics, which shows an overall return for European private equity and venture capital funds of (1.4)% for calendar year 2003. Although the data is not strictly comparable, it does suggest that 3i is performing well within the top quartile of the industry.

3i's return compares with returns of 25.7% and 31.0% on the FTSE 100 and FTSE All-Share total return indices respectively. It is normal that our returns lag an upturn in quoted markets. This is because the valuations of 3i's

Brian Larcombe
Chief Executive
12 May 2004

unquoted investments are generally based on historical earnings and our venture capital assets are not marked up in line with a rise in quoted markets.

Market conditions

Market conditions and business confidence have improved steadily since the beginning of the financial year. The improvement in capital markets and mergers and acquisition activity encouraged a rise in investment activity as companies began to return to growth agendas. The new issues market remains quiet across Europe, with only a small number of significantly-sized IPOs being achieved.

Strategy and competitive advantage

3i's development in recent years has been built on the four key elements of our strategy: developing the business internationally, building a balanced investment business, using the network as a key competitive advantage and investing in growth companies.

Today, 3i is active in Europe, Asia Pacific and the US, with 42% of our assets now outside the UK. Of our investment in the year, 51% was in continental Europe and a further 10% in the US and Asia Pacific.

Buy-outs account for 53% of assets, growth capital 35% and venture capital 12%.

3i's network of relationships around the world continues to deliver significant competitive advantage and is integral to all that we do. Market access, the ability to convert opportunities into good investments, add value to our portfolio companies and realise value, all depend upon it.

Our strategy of investing in companies with significant potential to grow is increasingly appropriate in a low inflation and more internationally competitive environment.

Strategy implementation

We have continued to drive improvement throughout the business, particularly investment focus, in ensuring the best from the network and in further efficiency programmes.

The combination of increased productivity and a smaller number of companies in the portfolio enabled a reduction in headcount of 13% from 858 to 750 during the year.

"3i is in great shape and well positioned to grow value for our shareholders"

A further change during the year was that our teams in Bristol, Glasgow and Leeds are now focused on portfolio management. We are also in the process of moving our teams in Padua and Nantes back to Milan and Paris respectively.

Across our three activities, 3i's scale has allowed us to develop a multi-specialist approach which can deliver the best resource to new business opportunities and from the management of key relationships with major companies and professional advisers.

A good illustration of this is our ability, within industry sectors, to bring together the chief executives of our portfolio companies and directors of the leading international businesses. This provides origination opportunities and creates value for our portfolio companies.

The establishment of specialist teams is especially clear in our venture business. This is now focused on nine of our offices, located in the main technology hubs within Europe, the US and Asia Pacific and coordinated by sector leadership teams in healthcare, software, communications and ESAT (electronics, semiconductors and advanced technologies).

Outlook

3i has withstood some of the most volatile market conditions that I have seen in my 30 years in the industry and has come through strongly. It is a leader in its industry and one of the few genuinely international businesses with competitive scale. The general macroeconomic drivers look more favourable, the business model is delivering in each of our three key areas of activity: buy-outs, growth capital and venture capital and the business has the people, the network and the capital strength to grow significant value for our shareholders.

I would like to thank the Board, the staff and our shareholders for the tremendous support I have enjoyed in leading 3i. I would also pay tribute to the entrepreneurs who build the businesses that our industry supports and acknowledge it is largely their visions that provide our opportunity.

Our business focus

“a significant improvement in all products”

Buy-outs

3i’s buy-out business is focused on the mid and smaller buy-out markets in Europe and Asia Pacific.

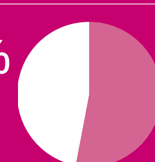
“A strong financial performance for the year as a whole and a substantial pick up in investment activity in the second half. For the year ahead, we will continue to drive value growth from the portfolio and, if market conditions remain supportive, increase the level of new investments and realisations.”

Jonathan Russell
Head of Buy-outs

Portfolio value

£2,306m

53%

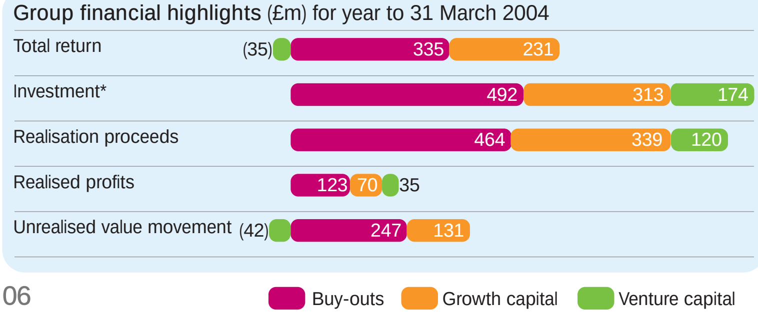


Five investments from the year

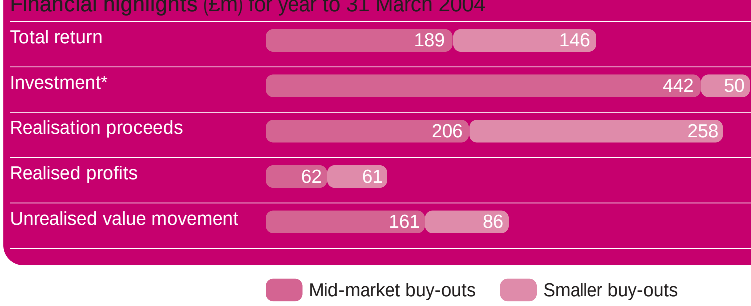
Company	Business description	Country	Transaction size £m	Amount invested £m*
Gant	Marketing and design of premium branded apparel	Sweden	73	8.5
Herold Mediatel	Telephone directories	Austria	173	20.6
MIB AG	Facilities management	Switzerland	43	11.8
Refresco	Fruit juice producer	Netherlands	208	40.3
SVP	Telephone consultancy service	France	33	4.9

* Including funds.

Group financial highlights (£m) for year to 31 March 2004



Financial highlights (£m) for year to 31 March 2004



Growth capital

Our growth capital business is focused on high growth companies, expanding organically or through acquisition.

"A strong financial performance for the year on the back of good value growth and realisation profits. Our focus continues to be to build portfolio value and increase the level of new investment."

Chris Rowlands
Head of Growth capital

Portfolio value

£1,487m

35%

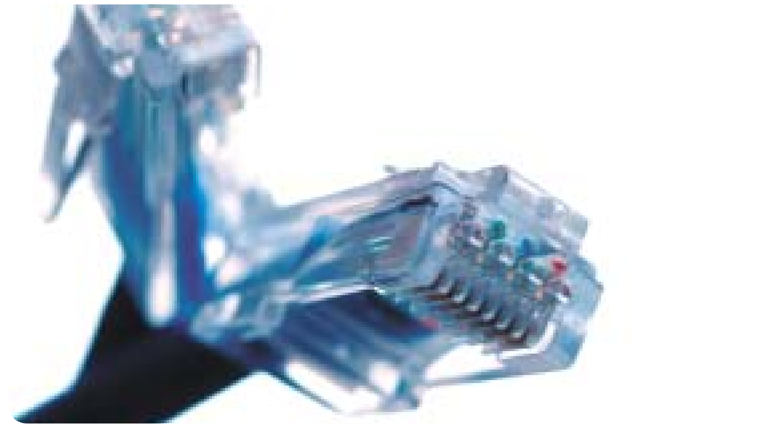
Five investments from the year

Company	Business description	Country	Amount invested £m*
CSMC	Foundry semiconductor services	China	6.5
Republic Ltd	Fashion retailers and wholesalers	UK	13.8
TeknikMagasinet	Retail of home electronics and hobby products	Sweden	6.1
Vanyera	Outsourced catering	Spain	8.2
Williams Lea	Outsourced print services	UK	33.3

* Including funds.

Financial highlights (£m) for year to 31 March 2004

Total return	231
Investment*	313
Realisation proceeds	339
Realised profits	70
Unrealised value movement	131



Venture capital

3i's venture capital business is focused on the healthcare, software, communications and electronics, semiconductors and advanced technologies ("ESAT") sectors.

"We have achieved a significant turnaround in financial performance. As technology markets continue to improve, the priority now is to grow the value of our portfolio and add new high potential businesses to it."

Rod Perry
Head of Venture capital

Portfolio value

£533m

12%

Five investments from the year

Company	Business description	Country	Amount invested £m*
Microsulis	Medical devices	UK	13.6
MobiApps	Wireless tracking and monitoring devices	Singapore	1.9
Pedestal Software	Software vendor	US	2.2
UbiNetics	Wireless telecommunications	UK	11.0
Vonage	Broadband telephony	US	6.5

* Including funds.

Financial highlights (£m) for year to 31 March 2004

Total return	(35)
Investment*	174
Realisation proceeds	120
Realised profits	35
Unrealised value movement	(42)

Operating and financial review

"clear competitive advantage"

This review includes a description of 3i's business and strategy and comments on 3i's performance during the year in the context of the economic and market environment and other influences. The review also discusses 3i's financial position, including changes to its capital structure, and comments on the main risks inherent in 3i's business and the framework used to manage them.

3i's business and strategy

3i's business

3i's business focus continues to be to invest in buy-outs, growth capital and venture capital. Geographically, most of our investment is in businesses based in western Europe, although 3i does have growing investment operations in the US and in the Asia Pacific region. In the US, 3i currently invests in businesses engaged in technology sectors; while elsewhere 3i invests across a broader range of industry sectors and in each of the investment activities identified above.

Buy-outs

3i invests in European mid-market buy-out transactions with a value between €25 million and €800 million. The vendors of the businesses being sold are typically large corporates disposing of non-core activities or private groups with succession issues.

3i targets the mid-market because that is where we believe we can create the most value. There is less competition for transactions in this market than for larger deals and price is less likely to be the sole or key criterion in "winning the deal" – we believe that, in the mid-market, the relationships we build through our local presence are just as important. Additionally, the nature and size of businesses in this market are such that we are more able to add value through strategic, operational and management input; and, in this market, the underlying businesses will generally have greater growth potential than larger ones and be of such a size as to make them more attractive acquisition targets for a greater number of strategic purchasers.

3i is also active in the smaller buy-out market (below €25 million), both in western Europe and in the Asia Pacific region. This is a more fragmented segment of the market and one in which 3i's local network provides good access to the private vendors, management teams and local advisers involved.

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Williams Lea

Business description:	Outsourced print management and information management services
Country:	UK
Investment type:	Growth capital

In February 2004, 3i invested £33 million in Williams Lea, the UK market leader in the provision of outsourced print management and information management services to major financial institutions and corporates. 3i has been invested in this £200 million revenue company since 1965.

This is a growth capital investment, with 3i's funding being used both to finance growth by the business and to enable a rationalisation of the shareholder base of approximately 300 individuals.

The growth element of the funding is intended to enable Williams Lea to increase its service offering to its existing blue chip customer base and also to secure new longer-term contracts as the market moves towards a model of full outsourcing of information and document management. This strategy involves a mix of organic growth and growth through acquisition. In addition, the business has plans to strengthen its presence in continental Europe as well as North America and the Indian subcontinent, in line with its customer requirements.

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Refresco

Business description:	Fruit juice producer
Country:	Netherlands
Investment type:	Buy-outs

In September 2003, 3i led the €312 million buy-out of Refresco Holding BV, investing €60 million (together with Eurofund IV) and taking a substantial stake in the business. Refresco is one of Europe's largest suppliers of fruit juices and soft drinks to food retailers, principally under private label.

This was a secondary buy-out from a Dutch/German/UK syndicate who were selling because they were unable to fund the continuing buy and build strategy.

3i's Benelux team has known the management for over four years and also had strong contacts within the original investor group. The 3i team involved local Dutch investment professionals supported by London-based executives and our food sector specialists.

We introduced a chairman with experience of multi-site, international, low cost manufacturing and of growing businesses through acquisition and supplying to large retailers.

The investment strategy is to grow revenues and increase margins, both organically and by way of acquisition, in a rapidly consolidating European market. 3i has been active in using its network to source potential acquisition candidates.

Growth capital
3i makes growth capital investments of between £5 million and £50 million, across a broad range of sectors, business sizes and funding needs. These investments typically involve 3i acquiring minority stakes in established businesses. We therefore seek to ensure a high level of influence and an attractive yield in these situations. 3i's growth capital business is primarily focused on 3i's European and Asia Pacific markets and has historically had a less competitive environment than buy-outs.

Success in this market is determined by the ability to build long-term relationships with local businesses and local intermediaries, as well as demonstrating the capability of helping these businesses to grow. This fits well with 3i's strategy of local presence, sector specialisation, sharing knowledge and offering local businesses access to 3i's international network of relationships.

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Angel Springs

Business description:	Supplier of watercoolers and bottled water
Country:	UK
Investment type:	Buy-outs

In December 2003, 3i led the simultaneous acquisition and merger of three UK office watercooler businesses to form Angel Springs, thereby creating one of the largest independent national cooler businesses in the UK.

The watercooler market is growing strongly on the back of the trend to healthier living habits and increased water consumption and is undergoing a phase of consolidation in the UK and continental Europe as a number of larger food and drink groups pursue market share through acquisition strategies. The investment strategy is to integrate the three businesses, drive organic growth and then sell to one of the industry consolidators or a new strategic entrant to the market.

The managing director of the new group is someone with whom 3i had previously successfully invested within the watercoolers sector and whose operational and other abilities it believes will enable a successful integration of the three businesses. 3i further strengthened the management team by introducing a chairman with relevant experience from its Independent Directors Programme and a finance director with whom it had also successfully worked before.

“a balanced business”

Venture capital

3i’s venture capital business is targeted at four key sub-sectors – healthcare, communications, software and electronics, semiconductors and advanced technologies (“ESAT”). The main geographic focus is western Europe and the US, though 3i does also invest in the Asia Pacific region.

Investment in venture capital takes the form of participation in a series of “funding rounds” and we therefore separate out “first investments” (those in businesses where 3i is not already invested) and “further investments”. 3i aims to invest between £1 million and £10 million in each new opportunity and, depending on circumstances and market conditions, we would generally expect 3i’s venture capital investment to be split broadly 50:50 between first investments and further investments in any year.

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Cambridge Silicon Radio

Business description:	Designer and manufacturer of single-chip Bluetooth wireless devices
Country:	UK
Investment type:	Venture capital

In February 2004, Cambridge Silicon Radio (“CSR”), a leading manufacturer of single-chip Bluetooth wireless devices in which 3i had invested a total of £7 million, achieved a successful IPO on the Official List of the London Stock Exchange. This represented an important milestone for CSR and provided 3i with a partial realisation of its investment in the business. At the IPO price of 200p, CSR was valued at £240 million and 3i’s holding was worth £30 million. 3i sold about one-third of its holding in the IPO.

3i supported the spin out of CSR from Cambridge Consultants Ltd in 1999. 3i recognised that the Bluetooth market was expanding and was impressed by the quality of CSR’s technology, which supports short-range wireless data and voice communications between different devices.

Since 1999, 3i has backed CSR through three subsequent funding rounds and negotiated a shareholder agreement with a major corporate.

CSR decided to partner with 3i because of its local presence, its global network of corporate and other contacts and its track record of backing successful semiconductor-related businesses.

3i brought together the current management team, assisting with the recruitment of a chairman, chief executive officer, chief financial officer and financial controller and introducing a non-executive director from its Independent Directors Programme. 3i also introduced CSR to a number of business partners and advisers and supported the company through its IPO process.

connected

Vonage

Business description:	Telecoms
Country:	US
Investment type:	Venture capital

In February 2004, 3i co-led a $40 million late-stage technology venture funding round in Vonage, a leading provider of broadband "voice-over internet protocol" (VoIP) telephony services, based in New Jersey. The funding, of which 3i contributed $12 million, will be used to accelerate the expansion of Vonage's service in North America and Europe and to support development of new innovative offerings.

The broadband telephony market is projected to expand rapidly over the next decade, due to its significant price advantages and superior functionality over the use of traditional circuit-switched telephone lines.

3i's knowledge of the global communications market and ability to help accelerate the company's international expansion through its network of offices were critical to 3i's ability to secure the opportunity. Since making the investment, 3i has introduced the company to a number of potential customers and partners in the US, Europe and Asia.

Vonage has seen a significant acceleration of its business in recent months and, by May 2004, had surpassed 150,000 subscribers in the US.

3i's strategy

The key elements of 3i's strategy are as follows:

– to develop the business internationally;
– to build a balanced investment business;
– to use the network as our key competitive advantage; and
– to invest in companies where there is potential to grow profits significantly.

Globally, private equity and venture capital investment is concentrated in the US and Europe, with the Asia Pacific region showing strong growth. We currently have a strong European presence and aim to grow our activities in the US and Asia. 3i targets investment across a broad range of industrial sectors and also invests at all stages of the corporate lifecycle, from start-ups to buy-outs. We continue to target businesses where we believe we can help to grow profits significantly.

Integral to our strategy is the ability to use 3i's network to generate returns that are greater than those of our competitors. As business becomes increasingly international and complex, we believe that the network provides 3i with real competitive advantage through each phase of the investment lifecycle – origination of the investment opportunity, developing and validating the business case, structuring and making the investment, implementing the operational plan for the business, and exit.

"we invest in businesses with the potential to grow profits significantly"

TeknikMagasinet

Business description:	Retailer of home electronics and hobby products
Country:	Sweden
Investment type:	Growth capital

In January 2004, 3i completed a £6 million investment in TeknikMagasinet, a Swedish retailer of home electronics and hobby products with a current turnover of approximately £20 million per annum. This growth capital investment comprises a mixture of equity shares and loans, with 3i taking a substantial minority stake in the business.

The company has a market-leading position in this sector, with 37 retail outlets across Sweden. The strategy that 3i's investment is supporting includes a rapid extension of the chain of outlets in Sweden, as well as expansion of the network into the other Nordic countries.

3i's local presence in Stockholm, as well as in Helsinki and Copenhagen, together with its experience and expertise in the retail sector and in growing retail businesses, enabled it to secure the opportunity. 3i has introduced a chairman and two additional non-executive directors with relevant capabilities and experience to help the business achieve its growth strategy.

Gant

Business description:	Marketing and design of premium branded apparel
Country:	Sweden
Investment type:	Buy-outs

In June 2003, 3i co-led the €109 million buy-out of Gant Company AB, an international marketer and designer of premium branded apparel. 3i, together with 3i Eurofund III, invested €13 million, taking a significant minority stake.

3i was introduced to Gant in late 2002 by a member of 3i's Independent Directors Programme who was a deputy non-executive director on the board of Gant. The approach followed the abandonment of IPO plans due to adverse market conditions.

Insights gained from previous investments in this sector helped 3i to understand, contribute to and validate the value growth strategy for the business and gain exclusivity almost from the start of the process. 3i used its local presence in Stockholm, supported by colleagues from its Spanish, Italian and UK offices with sector specific knowledge, to ensure that it had the best "angles" for the opportunity. The transaction was complicated by the diverse vendor group which consisted of the three founders, a multi-national business and a private equity firm.

Exit plans are currently focused on achieving an IPO on the Stockholm Stock Exchange in two to four years' time.

"3i's network is integral to all that we do"

The main elements of what we refer to as “our network” are as follows:

– local presence – this enables 3i to build strong relationships with entrepreneurs, corporates, universities, research organisations and intermediaries, and is particularly important in the deal origination phase of the investment lifecycle;

– sector specialisation – underpinning 3i’s ability to build meaningful business relationships, sector specialisation is critical in the phases of developing and validating the investment case and subsequently implementing the growth strategy. Our sector teams are drawn from 3i’s Industry Group, which comprises around 20 experienced senior industry specialists, and 3i’s investment and portfolio management executives;

– “product” specialisation – each of buy-outs, growth capital and venture capital has teams of specialist investment executives skilled in project management and financial structuring specific to the product. 3i’s scale and structure also allow us to utilise specialist skills in a number of other areas, including portfolio management, restructuring and turnarounds, and exits and IPOs of companies from 3i’s portfolio;

– sharing knowledge and contacts – the importance of knowledge and strong relationships in each phase of the investment lifecycle is difficult to overstate in the private equity and venture capital investment business and, for 3i, the benefits of sharing these across the organisation represent a substantial source of competitive advantage. We believe we have in place the systems, processes and structures and, as importantly, the corporate culture to help 3i maximise the potential benefits;

– relationships with corporates – another benefit of 3i’s scale and organisation is that we have meaningful relationships with a large number of corporates in each of the geographies in which we operate. These relationships are particularly useful at the origination, investigation and exit phases of an investment. Furthermore, 3i’s ability to make effective business introductions across a range of geographies is increasingly a critical factor in our ability to “win deals” and provides 3i with a distinctive source of value creation; and

– strengthening boards and management teams – the “People Programmes” 3i runs for chairmen, chief executives, chief financial officers and independent directors provide an excellent resource for building and strengthening boards and operational management; and are also a strong source of both investment opportunities and due diligence capability.

Senoble

Business description:	Manufacturer of dairy products and chilled desserts
Country:	France
Investment type:	Growth capital

In March 2004, 3i made a substantial growth capital investment in Senoble, a €600 million turnover French manufacturer of dairy products and chilled desserts, taking a 25% equity stake in the business. The investment was made to support capital expenditure.

Senoble, which has operations in France and Spain, is the leading manufacturer of private label milk-based products, but also produces a range of desserts under its own Senoble brand and a number of low-calorie products under the Weight Watchers brand through an exclusive licence for France.

The investment opportunity was originated through some direct marketing by one of 3i’s French food sector specialists. The depth of 3i’s network in the food industry in Europe (demonstrated through the pan European Food & Drink Sector conference at the IESE Business School in Barcelona in November) and the breadth of its sector experience and expertise were key differentiators in 3i’s ability to secure the opportunity. 3i has introduced a non-executive director with strong dairy sector and private label experience.

The investment strategy is premised upon strong growth of sales, mainly through increasing exports, and improvement in margins.

Organisation and office network

There have been no changes since March 2003 in the leadership of our three investment businesses. Jonathan Russell continues to lead the pan European mid-market buy-out business; Chris Rowlands leads the growth capital and smaller buy-out business; and Rod Perry leads the venture capital business.

Within each of these activities, a panel of our most experienced investors ensures rigorous application of our investment processes and provides guidance to help ensure we maximise value across each phase of the investment lifecycle. These panels also seek to ensure, on a case-by-case basis, that we assemble “the best team for the job” from the regional, sector and product specialists.

The investment and divestment approval functions for larger transactions are carried out by two Investment Committees, addressing technology and non-technology investments respectively. The membership of these Investment Committees is drawn from 3i’s Executive Committee.

3i’s Smi (small and medium-sized investments) initiative, which was established in 2001 and which reports to Chris Rowlands, continues to be successful in generating returns from some of the older and lower-growth investments and, importantly, in enabling non-Smi investment professionals to focus on identifying investment opportunities and managing larger investments. At 31 March 2004, £698 million of value (16% of 3i’s total portfolio) and 849 investments (45% by number of 3i’s total portfolio) were managed by the Smi team.

There were no changes to the office network during the year, though we have just announced that 3i’s offices in Padua and Nantes will close in the summer of 2004. 3i will then have a total of 29 offices (25 across Europe and two each in the US and the Asia Pacific region). We continue to recognise the need to deploy resources through critical mass teams based in locations of greatest opportunity. To this end, 3i’s Glasgow, Bristol and Leeds offices were, in February, directed to focus on portfolio management, with the executives responsible for new investment in these offices being redeployed. We do not anticipate any substantial changes to the current network of offices.

During the year, headcount was reduced from 858 to 750, reflecting a continued application of the cost reduction measures and changes in investment processes and resource alignment initiated over recent years.

“net investors in the second half”

Operating review

Macroeconomic and market conditions

The macroeconomic environment in the regions where 3i has operations improved substantially during the financial year under review. Looking at the period as a whole, perhaps the key defining features of the economic environment were as follows: gradually improving consumer and business confidence from the lows experienced during the extended build-up to hostilities in Iraq, though ongoing geo-political uncertainty appears to be a fact of life; the significant strengthening during the period of sterling and the euro compared with the US dollar and a number of Asian currencies, which has impacted the competitive position of a number of our portfolio businesses; improving economic growth outlook for the US and, to a lesser degree, for Europe, though across most of Europe levels of government spending remain high; and the strength of the Chinese economy and the implications of this for western economies and businesses.

Stock market conditions and mergers and acquisitions (“M&A”) activity levels also showed improvement through the financial year. Most stock market indices rose substantially, reflecting improving confidence in underlying economic growth and the prospects for corporate earnings. The increased business confidence, improving stock market conditions and continuing low interest rates are all enabling and encouraging businesses to recommence their disposal and acquisition strategies, though the number of completed M&A transactions remains subdued, both in Europe and globally.

The private equity and venture capital markets are also showing increased activity after a slow first half of 2003. Market statistics for 2003 show that total private equity and venture capital investment in Europe fell by 16.5% compared with 2002, with "high technology" investment down 25%, "growth" investment down by 29.4% and buy-out investment down by 9.5%. The second quarter experienced the lowest levels of investment (as expected, given the prevailing uncertainty and consequent deferment of business decisions), with strong increases in the third and fourth quarters.

Elsewhere, the "high technology" segment of the market in North America showed a 5% increase in total investment over 2002; and investment levels in Asia Pacific rose very substantially in 2003 to a new "all-time high".

Conditions for realisations were difficult for most of 2003, with relatively few active trade buyers and continuing low levels of IPOs by historical standards. Market statistics for Europe show a 25% fall in the number of divestments in 2003 compared with 2002. However, we are seeing encouraging levels of renewed interest by trade buyers for strategic assets and the IPO markets are showing signs of re-opening, at least for strongly performing and profitable businesses.

There were also a number of features specific to the markets of each of our three investment businesses. Activity in the pan European mid-market for buy-outs was driven largely by strategic reorganisation and restructuring initiatives within conglomerates under continuing pressure to sell off non-core assets and manage their balance sheets. In addition, secondary buy-outs (where a private equity investor buys a business from another private equity investor) were a significant feature during the period, accounting for 31.3% of investment (by transaction value) in 2003. This is a reflection of the amount of buy-out funds raised and seeking investment opportunities and also, on the sell side, of the pressure on some funds to sell investments and return cash to investors.

Within the European growth capital market, investment in 2003 was down sharply on 2002, largely as a result of growth and acquisition plans being deferred in an environment of business uncertainty during the first half of the year. Since then, these strategies have increasingly been recommenced and we believe that the use of private equity to facilitate cross-border expansion within the European market is a key driver of investment opportunity.

The venture capital markets are seeing increased levels of IT spending by businesses as well as improved conditions for realisations as the appetite of corporates for buying venture-backed businesses improves and stock markets re-open to some extent to technology companies. Reduced levels of competition following the fallout from the "technology bubble" are also a feature of the marketplace in Europe, though competition for particularly good opportunities is still significant.

"the strategy is delivering"

Total return

3i achieved a total return of £531 million for the financial year, which equates to 18.1% on opening shareholders' funds. While this compares with returns on the FTSE 100 and FTSE All-Share total return indices of 25.7% and 31.0% respectively, it is normal that 3i's returns lag an upturn in quoted markets. This is because our valuations of unquoted investments are generally based on historical earnings and our venture capital investments are not marked up in line with a rise in quoted markets.

The components of the total return are shown in table 1; and table 2 contains an analysis of total return by business and geography.

Chart A: Comparison of 3i's compound annual return with the FTSE All-Share total return index
for the years to 31 March 2004

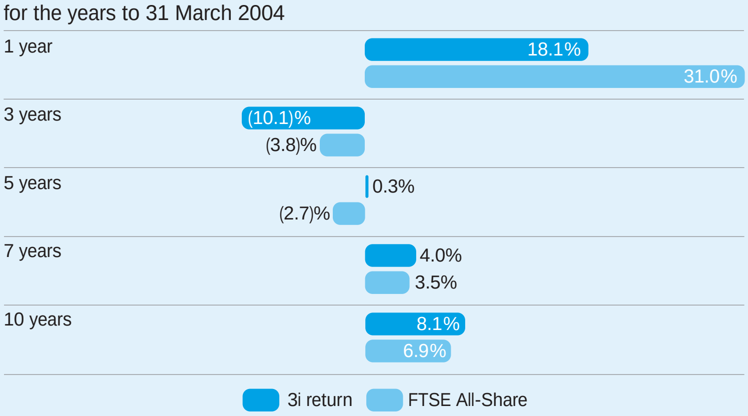


Table 1: Total return

	2004 £m	2003 £m
Total operating income before interest payable	267	308
Interest payable	(93)	(110)
Management expenses	(163)	(163)
Realised profits on disposal of investments	228	190
Unrealised profits/(losses) on revaluation of investments	336	(1,159)
Carried interest and investment performance plans	(40)	(12)
Other	(4)	11
– Revenue return	134	146
– Capital return	397	(1,081)
Total return	531	(935)

Table 2: Total return by business and geography (£m)
year to 31 March 2004

	UK	Continental Europe	US	Asia Pacific	Total
Buy-outs	123	185	(4)	31	335
Growth capital	238	(16)	1	8	231
Venture capital	25	(28)	(24)	(8)	(35)
Total	386	141	(27)	31	531

Returns are stated after currency translation losses.

The main drivers of the total return were a good level of profitable realisations and strong growth in the value of the portfolio. The latter was due to two main factors: the use of higher earnings multiples, as a result of rising stock markets; and a good level of "first-time uplifts" on a number of recent investments in the mid-market buy-out portfolio as they moved from being valued at cost to being valued on the earnings basis. The total return also reflects an unrealised loss on foreign currency translation of £64 million, arising on 3i's euro- and US dollar-denominated portfolios net of currency borrowings, as sterling appreciated over the year relative to the euro (up 3%) and the US dollar (up 16%).

Improved results in each of 3i's business areas underpinned the overall return. The mid-market buy-out return of 22.6% (on opening shareholders' funds attributed to this activity) was largely driven by growth in the value of the portfolio, with strong first-time uplifts on a number of recent investments and a minimal level of provisions. Returns in the smaller buy-out and growth capital businesses, of 22.1% and 26.8% respectively, were driven by strong realisations, while the portfolios increased in value mainly as a result of using higher earnings multiples. Both businesses continued to generate a good income yield. The venture capital business produced a total return of (6.0)%, though its return was broadly break-even before the impact of foreign currency translation losses. There were a small number of funding rounds at higher company valuations, allowing us to increase the carrying value of these investments, but we have not sought to reflect in the valuations of unquoted venture capital investments the significant rise in quoted technology indices over the year.

Geographically, 3i's returns in the UK, continental Europe and Asia Pacific were strong. The return in the UK of 22.2% was driven mainly by a high level of profitable realisations and healthy value growth in the portfolio. Whilst the buy-out and growth capital businesses were the main contributors to the UK's return, the venture capital business also achieved a positive return.

In continental Europe, 3i's return of 14.5% (17.5% before the impact of unrealised foreign currency translation losses of £29 million) was largely due to the high level of first-time uplifts.

In Asia Pacific, the sale of our investment in Vantec Corporation, the logistics business acquired from Nissan in 2001, was the main contributor to our 34.3% return.

The US business made a loss of (7.4)% before taking account of the £17 million translation difference arising on the dollar-denominated portfolio (net of dollar borrowings).

Investment

3i invested a total of £784 million (£979 million including investment on behalf of co-investment funds), which is a 9.5% increase over the prior year.

During the first half of the year, 3i invested £211 million, with the balance of £573 million being invested in the second half. The substantial increase in the second half was largely due to 3i's ability to complete new investment opportunities that had built up in the new investment pipeline up to 30 September – in contrast to the low pipeline coming in to the financial year, reflecting the deferral of many strategic decisions by businesses and investors in an environment of business uncertainty during the extended build-up to the hostilities in Iraq.

An analysis of the amount invested by business and geography is given in table 5. Buy-out transactions represented 42% of total investment, growth capital 37% and venture capital 21%. Of the amount invested in venture capital, 55% was further investment into existing portfolio companies.

Continental European investment represented 51% of investment, up from 42% in the prior year, and is a reflection of our ability, through the network, to source and complete larger deals across Europe. The UK represented 39% (down from 44%), with the US and Asia Pacific investing 8% and 2% respectively.

Table 3: Summary of changes to investment portfolio

	2004 £m	2003 £m
Opening portfolio	3,939	5,109
Investment	784	716
Realisation proceeds	(923)	(976)
Realised profits on disposal of investments	228	190
Unrealised profits/(losses) on revaluation of investments	336	(1,159)
Other	(38)	59
Closing portfolio	4,326	3,939

Table 4: First and subsequent investment

	2004 £m	2003 £m
New first investments	535	432
Further funding or drawdown on existing arrangements	249	284
Total	784	716

Table 5: Investment by business and geography (£m)

	UK		Continental Europe		US		Asia Pacific		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Buy-outs	86	163	240	149	–	–	–	–	326	312
Growth capital	166	112	111	75	3	32	9	15	289	234
Venture capital	57	43	50	80	58	42	4	5	169	170
Total	309	318	401	304	61	74	13	20	784	716

Table 6: Realisation proceeds by business and geography (£m)

	UK		Continental Europe		US		Asia Pacific		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Buy-outs	229	467	178	142	–	–	57	4	464	613
Growth capital	303	199	34	66	–	–	2	5	339	270
Venture capital	76	61	33	30	10	2	1	–	120	93
Total	608	727	245	238	10	2	60	9	923	976

Realisations

Despite a relatively poor environment for realisations, 3i generated good realisation proceeds of £923 million (2003: £976 million) and strong realised profits of £228 million (2003: £190 million). Realised profits are stated net of write-offs, which amounted to £50 million (2003: £79 million).

The aggregate uplift over 31 March 2003 valuations on equity realisations was 58% and, including sales and redemptions of loans and fixed income shares, 18% of the opening portfolio was realised.

Table 6 shows an analysis of realisation proceeds by business and geography. The growth capital and smaller buy-out businesses were particularly active in generating realisations, mainly through a focus on selling investments that have been in the portfolio for several years.

Sales of quoted equity benefited from the general rise in equity markets, with £40 million of profits generated over 31 March 2003 valuations (an uplift of 51%). Four investee companies achieved IPOs during the year, with the most high profile probably being that achieved by Cambridge Silicon Radio ("CSR") in February (see panel on page 11). The successful IPO of CSR, a leading manufacturer of single-chip Bluetooth wireless devices, at a market capitalisation of £240 million was seen as a key test of the stock market's appetite in Europe.

Unrealised value movement

The unrealised value movement on the revaluation of investments was a positive £336 million, representing a significant improvement on the £1,159 million value reduction in the prior year. An analysis of the different components of the value movement is given in table 7.

The weighted average earnings multiple applied to investments valued on an earnings basis rose from 8.1 to 12.0 over the period. The impact of increased earnings multiples on investments valued on an earnings basis at the start and end of the year generated value growth of £287 million (2003: £244 million value reduction).

There was a fall of 4% over the year in the aggregate attributable earnings of investments valued on an earnings basis at the start and end of the year, giving rise to a value reduction of £37 million (2003: £48 million value increase). Two larger investments whose profits fell significantly during 2003 were the main components of this value reduction, but the fall in earnings is also due to the use of historical audited accounts (therefore not reflecting the more recent upturn in the economic environment) in valuing most of this component of the portfolio.

Table 7: Unrealised profits/(losses) on revaluation of investments

	2004 £m	2003 £m
Earnings multiples	287	(244)
Earnings	(37)	48
First-time valuation uplift from cost	238	31
Provisions	(143)	(379)
Down rounds and restructuring	(70)	(361)
Other movements on unquoted investments	1	(45)
Quoted portfolio	60	(209)
Total	336	(1,159)

“strong first-time uplifts”

It should be noted (by reference to table 7) that the value movement relating to first-time uplifts includes £71 million which is due to earnings growth and that the “other movements on unquoted investments” item includes £7 million in respect of companies that recovered from making losses to being profitable. The net value movement due to earnings growth is therefore a £41 million increase.

First-time uplifts totalled £238 million (2003: £31 million). This is a reflection of the quality of investments made in recent years and the results beginning to come through as value growth strategies in investee businesses are implemented.

Provisions for investments in businesses which may fail totalled £143 million (2003: £379 million) and valuation reductions relating to the application of our downround methodology and restructuring provisions fell significantly to £70 million (2003: £361 million). The latter figure is stated net of valuation increases of £65 million, arising as a result of investee companies raising funds from new investors at increased values.

The quoted investments held at the end of the year increased in value by an aggregate £60 million over the year.

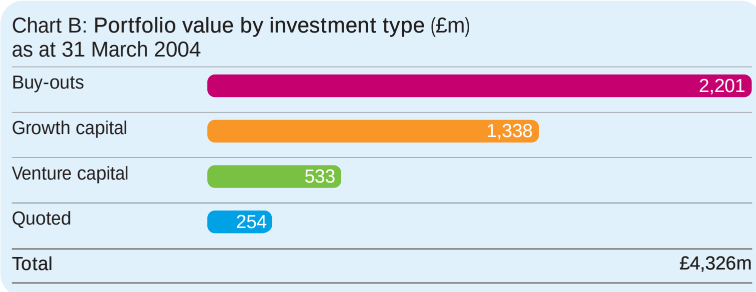
Carried interest and investment performance plans

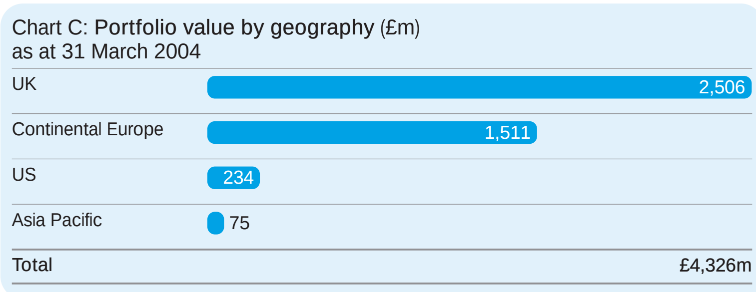
Market practice in the private equity and venture capital industry is to offer investment staff the opportunity to participate in returns from successful investments. Amounts payable on the successful realisation of investments in the year to 31 March 2004 totalled £8 million. A further £32 million has been accrued in respect of amounts potentially payable if assets are ultimately realised at the values they were held at in the accounts at 31 March 2004.

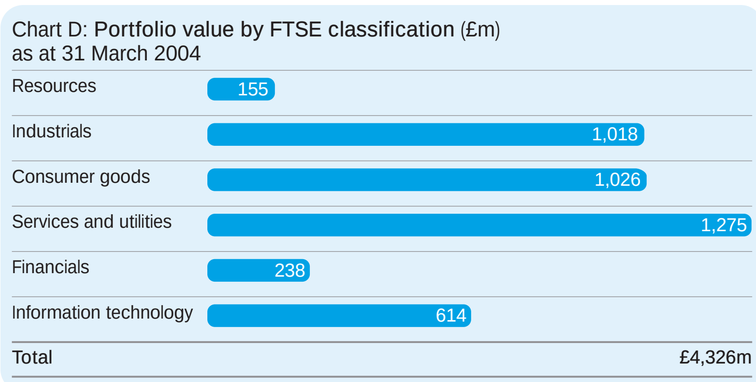
Income and costs

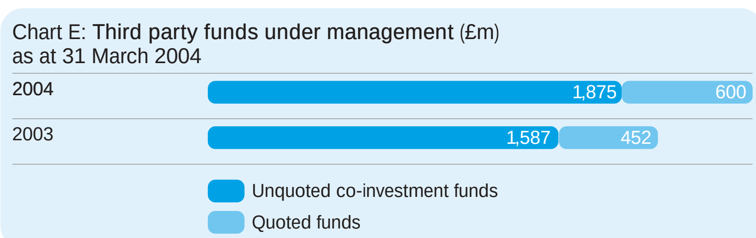
The main elements of income and costs are shown in table 1.

Total operating income before interest payable was £267 million (2003: £308 million). The decrease when compared with the prior year reflects a lower level of special interest and dividend receipts during the year and the realisation of a small number of higher yielding investments. Fee income is marginally lower than in the prior year, although there was a substantial increase in the second half of the year, with arrangement and negotiation fees contributing strongly.









Net interest payable decreased, reflecting the reduction in net borrowings and also the lower average rate of interest on long-term borrowings following the €550 million convertible bond issue in August 2003.

Management expenses of £163 million (2003: £163 million) include fundraising costs of £6 million incurred in connection with the Eurofund IV fundraising and a higher level of staff bonuses than in the prior year.

The portfolio

At 31 March 2004, the portfolio comprised 1,878 investments, a reduction from 2,162 a year earlier and a reflection of the strategy of seeking exits from investments where we believe the value growth potential is not sufficiently attractive. We would expect this number to continue to decrease over the medium term.

Charts B, C and D show the portfolio analysed by investment type, geography and sector respectively and demonstrate the balance we seek in the business. At the year end, 53% of the portfolio is represented by buy-outs, 35% by growth capital investments and 12% by venture capital investments. Geographically, 58% is in the UK, 35% in continental Europe, 5% in the US and 2% in Asia Pacific.

3i's portfolio, in contrast to many others in the private equity and venture capital industry, has relatively low exposure to individual company risk, with the top 10 investments representing 13% by value at the year end and the top 50 investments 35%.

Fund management activities

Fund management activities comprise the management of both private equity funds and quoted funds.

The private equity funds are primarily co-invested alongside 3i's own capital when financing buy-outs, enabling an investment to be made without 3i holding a majority interest. During the year, 3i earned fee income of £31 million (2003: £34 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of third-party funds under management. During the year, 3i received £1.7 million in respect of realised investments and accrued an additional £1.7 million in respect of unrealised investments. At 31 March 2004, the invested portfolio managed on behalf of private equity fund investors was valued at £1,324 million (2003: £1,158 million), excluding undrawn commitments.

During the year, we announced that the final closing of Eurofund IV, the latest fund targeted at pan European mid-market buy-outs, would take place by 30 June 2004. It is expected that third party commitments will amount to at least €800 million over the life of the fund, enabling 3i (together with the fund) to invest up to €3 billion in buy-outs over the next three years.

3i Asset Management manages 3i's portfolio of quoted investments (comprising principally our holdings in investments that have achieved an IPO) as well as the portfolios of the 3i Group Pension Plan and of three quoted specialist investment companies (3i Smaller Quoted Companies Trust plc, 3i Bioscience Investment Trust plc and 3i European Technology Trust plc). At 31 March 2004, total third party quoted funds under management were £600 million. Fees earned from quoted fund management amounted to £4 million (2003: £4 million).

Accounting policies and valuation

New valuation methodology

In August 2003, the British Venture Capital Association ("BVCA") issued new valuation guidelines for private equity and venture capital investments, which resulted in changes being made to 3i's portfolio valuation methodology (summarised on page 69). The new methodology has been approved by the Board and was applied in carrying out the 31 March 2004 portfolio valuation. The net impact of these changes on the overall valuation of the portfolio was immaterial.

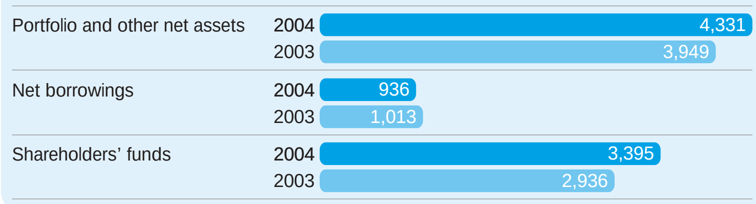
Changes to accounting policies

There have been no changes to accounting policies during the year.

Introduction of international financial reporting standards

In June 2002, the European Union adopted a regulation that requires, from 1 January 2005, European listed companies to prepare their consolidated financial statements in accordance with international accounting standards. 3i's 31 March 2006 financial statements will therefore be prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise not only IFRS but also International Accounting Standards ("IAS"). Details of 3i's implementation programme are discussed on page 53.

Chart F: **Balance sheet summary** (£m)
as at 31 March 2004



Financial review

Cash flows

The key cash flows during the year were the aggregate cash outflow of £756 million in respect of investment and cash inflows totalling £913 million in respect of proceeds received on realising investments. Net cash inflow for the year was £45 million (2003: £170 million), reducing net borrowings at the year end to £936 million (2003: £1,013 million). With the significant growth in the value of the portfolio during the year, gearing fell to 28% at 31 March 2004 compared with 35% a year earlier.

Capital structure

3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash.

The major changes in capital structure during the year, other than the growth in shareholders' funds, were the €550 million convertible bond issue completed in August 2003 and the replacement of the £625 million multi-currency facility in January with a new €595 million revolving credit facility. The convertible bonds are due in 2008 and have a conversion price of 842p (a 45% premium to the "reference price" of 580p) and an annual coupon of 1.375%.

Long-term borrowing at 31 March 2004 is £1,595 million and is repayable as follows: £5 million between one and two years, £944 million between two and five years and £646 million after five years. In addition, at the year end, 3i had committed and undrawn borrowing facilities amounting to £583 million and cash and other liquid assets totalling £819 million. We are confident we have in place adequate funding for foreseeable investment needs.

3i Group plc has credit ratings with Moodys and Standard & Poor's of Aa3/stable and A+/stable respectively.

Regulation and risk management

Introduction
3i Group plc and relevant subsidiaries continue to be authorised and regulated by the Financial Services Authority.

3i has a comprehensive framework to manage the risks that are inherent in its business. This framework includes a risk committee whose purpose is to monitor the identification, assessment and management of key risks across the business. The main risks comprise economic risk, treasury and funding risk, investment risk and operational risk.

Economic risk
3i invests mainly in European companies and continues to develop its operations in the US and Asia Pacific. However, the majority of the portfolio (58%) is still in UK companies and there is an element of exposure to the UK economic cycle. To mitigate this, 3i has invested in different sectors of the UK economy with different economic cycles. In addition, an increasing proportion of assets is invested in continental Europe, in the US and in Asia Pacific, which may have different economic cycles.

Treasury and funding risk
The overall funding objective continues to be that each category of investment asset is broadly matched with liabilities and shareholders' funds, with corresponding characteristics in terms of risk and maturity, and that funding needs are met ahead of planned investment. This objective continued to be met during the year ended 31 March 2004.

All assets and liabilities are held for non-trading purposes and, as a result, 3i does not have a trading book. 3i does not trade in derivatives and does not enter into transactions of either a speculative nature or unrelated to 3i's investment activities. Derivatives are used to manage the risks arising from 3i's investment activities.

The main funding risks faced by 3i are interest rate risk and exchange rate risk. The level of these risks is mitigated by the overall funding objective and the Board regularly reviews and approves policies on the approach to each of these risks.

3i's policy for exchange rate risk management is not generally to hedge its overall portfolio in continental Europe or the US. In line with its funding policy, part of those assets are funded by borrowings in local currency and, as a result, a partial hedge exists. 3i's largest exposure is £0.8 billion in respect of net assets denominated in euros in continental Europe. The level of exposure to exchange rate risk is reviewed on a periodic basis.

Day to day management of treasury activities is delegated to executive Directors and the Group Treasurer. Regular reports on 3i's funding position have been considered during the year by the Board. There has been no change during the year or since the year end to the major funding risks faced by 3i, or to 3i's approach to such risks.

"growth in shareholders' funds"

Investment risk

This includes investing in companies that may not perform as expected, being over exposed to one sector of the economy and the portfolio valuation being partly based on stock market valuations.

Investment levels are set, allocated and monitored by product area and geography. Within this framework, 3i invests in all sectors of the economy, except those, such as property, where the opportunity to invest in private equity and venture capital backed businesses meeting 3i's investment criteria is limited. Management periodically reviews the portfolio, which is well diversified by industry sector, to ensure that there is no undue exposure to any one sector.

3i's investment criteria focus on management ability and market potential. Investment appraisal and due diligence are undertaken in a rigorous manner by drawing on our international network and experts in individual industry sectors. In general, proposed investments over £5 million are presented to 3i's Investment Committee or Technology Investment Committee, which are committees of senior management including executive Directors.

The valuation of a large proportion of 3i's equity portfolio is based on stock market valuations for the relevant industry sector. Quoted investments are valued using the closing mid-market price at the balance sheet date. 48% of the unquoted portfolio is valued using stock market earnings multiples for the relevant industry sector discounted for non-marketability. Accordingly, stock market valuations for individual sectors are an important factor in determining the valuation of 3i's portfolio and the total return.

There are regular reviews of holdings in quoted companies and exposure to individual sectors in order to monitor the level of risk and mitigate exposure where appropriate. In particular, the level of future funding of technology companies is kept under review. However, it is not possible to protect against the risks of a downturn in stock markets generally or in any specific sector.

Accordingly, the valuation of 3i's portfolio and opportunities for realisation depend on stock market conditions and the buoyancy of the wider mergers and acquisitions market.

"financial capacity and flexibility"

Operational risk

This includes operational events such as human resources risks, legal and regulatory risks, IT systems problems, business disruption and shortcomings in internal controls.

Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks. This is supported by a framework of core values, standards and controls, a code of business conduct and delegated authorities.

The ability to recruit, develop and retain capable people is of fundamental importance to achieving 3i's strategic objectives. We operate in a competitive industry and aim to remunerate our staff in line with market practice and to provide superior development opportunities.

A group-wide business continuity strategy is in place. This strategy has been assessed against a detailed business impact analysis and independently benchmarked against best practice.

Conclusion

The year under review saw a strong return on opening shareholders' funds, driven mainly by healthy realisation profits and good value growth from the portfolio. In addition, 3i took advantage of improving conditions to invest just under £1 billion (including co-investment funds) in good businesses with attractive growth prospects.

3i's balance sheet at the year end is strong, with gearing at a relatively low 28%, providing the financial capacity and flexibility to vary investment and realisation activity in line with market conditions.

Corporate responsibility report

Our approach

Philosophy

As an international business operating in 14 countries with around 750 employees worldwide, 3i aims to conduct its business in a socially responsible manner. It is committed to being a responsible member of the communities in which it operates and recognises the mutual benefits of engaging and building relationships with those communities.
3i believes that respect for human rights is central to good corporate citizenship. In everything 3i does, it aims to be commercial and fair, to maintain its integrity and professionalism and to respect the needs of shareholders, staff, suppliers, the local community and the businesses in which it invests.

3i endeavours to comply with the laws, regulations and rules applicable to its business and to conduct its business in accordance with established best practice in each of the countries in which it operates. Environmental, ethical and social responsibility issues and standards are also taken into consideration in every aspect of the business.

3i aims to be a responsible employer and has adopted corporate values and standards designed to help guide its employees in their conduct and business relationships. These values and standards are an integral part of 3i's culture.

Responsibilities and accountabilities

The Board as a whole is responsible for ethical standards. The executive Directors are responsible for ensuring compliance with 3i's corporate values and standards.

The Corporate Responsibility Committee (the "Committee"), comprising Tony Brierley, Company Secretary and Chairman of the Committee, Patrick Dunne, Group Communications Director, Charles Richardson, Manager of a UK portfolio management team, and Hans Middelthon, an investment executive in 3i's Oil and Gas team, considers and reviews environmental, ethical and social issues relevant to 3i's business and associated risks. It also monitors and reviews the operation of 3i's corporate responsibility policies and procedures.

Tony Brierley has specific responsibility for 3i's environmental policies, leading the development of new initiatives and targets and reporting to the Board. He is also a member of the Leadership Team of Business in the Environment.

The Committee, on behalf of the Board, identifies and assesses the significant risks and opportunities for 3i arising from social, ethical and environmental issues. A risk matrix methodology is used to identify new risks, monitor developing trends and best practice, and consider changes in 3i's business and culture. This risk matrix is reviewed and updated at each meeting of the Committee and significant risks are reported to 3i's Risk Committee, whose work is set out in more detail on page 36 of the Directors' report. The Committee reports regularly to the Board.

All employees have a responsibility to be aware of, and abide by, 3i's environmental, ethical and social policies which are available to all staff through 3i's intranet. Employees are encouraged to make suggestions to improve processes and procedures.

Environment

The environment

As a financial services business employing around 750 employees worldwide, 3i's direct environmental impact is relatively low. 3i measures its own energy and resource usage where practicable and sets targets to achieve improvement. The principal benchmarks against which 3i measures its performance are for:

– CO_2 emissions; and
– recycling of paper and other materials.

3i also assesses the environmental standards of suppliers, through its procurement policy.

In Kind Direct

During the year, 3i supported In Kind Direct, a UK charity which distributes manufacturers' surplus goods to other UK voluntary organisations. These include essentials such as toiletries and tools, office supplies and equipment, and household products and appliances, which might otherwise be disposed of in landfill sites. 3i was particularly pleased to support a charity which utilises surplus products in an environmentally efficient manner.

As a corporate

As an employer

3i's staff are fundamental to the success of its business. Accordingly, one of 3i's core values is to respect its staff and their needs.

Employees are organised in small teams and an environment of co-operation is encouraged to ensure the highest standards of integrity and professionalism.

In accordance with 3i's core values, individual consultation with employees on matters affecting them, and fair and open communication, are a high priority. Periodically, internal communication surveys of employees are conducted for 3i by independent researchers.

3i has comprehensive behaviour policies to help ensure that employees treat their colleagues and others with courtesy and respect.

3i also has a whistle blowing policy setting out procedures for staff to raise in confidence matters of concern, for an appropriate and independent investigation of such matters and, where necessary, for follow-up action.

3i's employment policies are described in more detail in the Directors' report on pages 35 and 36.

Health and safety

3i recognises that the promotion of health and safety at work is an essential function of staff and management at all levels. In an endeavour to achieve high standards, appropriate policies and procedures have been put in place. These policies and procedures are the responsibility of Michael Queen, the Finance Director.

The purpose of 3i's health and safety policy is to enable all members of 3i's staff to go about their everyday business at 3i's offices in the expectation that they can do so safely and without risk to their health. 3i imposes rigorous standards on its staff and subcontractors and endeavours to ensure that the health, safety and welfare of its employees, visitors, customers, subcontractors' staff and the general public are not compromised.

3i's objective is not to have any reportable accidents or incidents. During the year to 31 March 2004, no reportable accidents or incidents occurred under UK Health and Safety regulations and no reportable accidents or incidents occurred under similar regulations outside the UK.

3i's health and safety procedures are independently reviewed annually. As a member of Tommy's Pregnancy Accreditation Programme, 3i complies with criteria for pregnancy management, geared towards creating a positive environment for parents-to-be in the workplace.

As an investor

Investment policy

3i has a portfolio of investments in over 1,800 businesses in Europe, Asia Pacific and the United States. As an investor, corporate governance is a priority and account is taken of environmental, ethical and social issues when making investment decisions. 3i believes it is important to invest in companies whose owners and managers act responsibly on environmental, ethical and social matters.

3i aims to invest in companies which:
– respect human rights;
– comply with current environmental, ethical and social legislation;
– have proposals to address defined future legislation;
– seek to comply with their industry standards and best practice.

3i recognises that the most significant risks to 3i's short-term and long-term value arising from environmental, ethical and social matters arise from its investment business. If a company in which 3i has an investment acts irresponsibly on corporate responsibility issues, this might affect the monetary value of that investment and, as a shareholder in that company, raise reputational issues for 3i. Although 3i does not have operational control over the companies in which it invests, it does have the opportunity to influence the behaviour of these businesses and encourages the development and adoption of good corporate governance. This is achieved through the training of investment staff and non-executive directors who are appointed to the boards of investee companies and the raising of awareness within investee companies of social, environmental and ethical issues.

3i has clear procedures to reduce the risks of 3i investing in businesses which operate in an environmentally, ethically or socially unacceptable manner. When reviewing businesses for potential investment, investment executives are required to consider whether any corporate responsibility risks arise and, if any risks are identified, to follow 3i's corporate responsibility investment procedures. Depending on the nature of the risk identified and its seriousness, a condition precedent or post completion undertaking requiring that the situation be remedied may be required from the investee company or its management. Alternatively, it may be decided not to proceed with the investment.

Where, after an investment has been made, 3i becomes aware that an investee company is not operating in an acceptable way, 3i will seek to use its influence to encourage improvement. Where that is not possible, 3i will seek to divest itself of the investment.

Training and development

Encouraging the continuous development of staff is important to 3i and its business. During the year, a revised training and development programme was launched for 3i staff. This programme includes courses on communications and presentations, working within a management matrix environment, coaching and mentoring, and networking and management skills. In addition, investment staff are required to complete an investment training programme on joining 3i and all staff are encouraged to attend external courses on subjects relevant to their roles within 3i. During the year, in addition to these external courses, approximately 300 employees attended training and development courses.

It is a legal and regulatory requirement that all executives involved in making or managing investment transactions receive anti-money laundering training and refresher training on a rolling two year basis. All relevant executives have received anti-money laundering training and, during the year, 3i delivered a refresher training presentation to all relevant executives.

A programme of role-play-based workshops across the business and regular articles in 3i's staff magazine are being used to raise awareness of corporate responsibility issues, to stimulate debate and provide employee training. During the year, nine workshops, covering 336 employees, were held in the UK. Workshops will be held in continental Europe, Asia Pacific and the US in the coming year. Following feedback from these workshops, a fact sheet, explaining 3i's approach to corporate responsibility and providing further information for staff, is being circulated.

Training for Directors on corporate responsibility issues is achieved through a system of regular Board reporting and by Board presentations on relevant corporate responsibility issues.

Charity and community

3i's charitable policy

3i's charitable policy aims to support:
- causes based in the communities in which 3i has offices;
- charitable activities of staff. 3i matches donations made by UK staff under the Give as You Earn scheme ("GAYE") and the proceeds of staff fundraising efforts. In the year to 31 March 2004, approximately 32% of 3i's charitable donations were matching GAYE donations;
- charities relevant to its corporate activity, for example, 3i supports businessdynamics, a charity which aims to help young people understand business.

Charitable donations made in the UK in the year to 31 March 2004 amounted to £253,419, supporting a variety of different charities with donations ranging up to £35,000.

RAM

3i's support of the Royal Academy of Music, sponsoring student scholarships and the Symphonia Orchestra, dates back to 1991. Unlike other international music schools, the academy relies on voluntary funding for all student scholarships.

We were delighted to give the students the opportunity to perform at a gala concert in Paris celebrating 3i's 20 years in France.

Making a difference

Staff across 3i engage in a range of community support projects. The two examples above are of team away days in Frankfurt and London. One involved a council house makeover in Frankfurt and the other, decorating part of the Lorrimore Drop-In Centre in London, a day centre which provides support to people with mental health needs.

Young Vic

The Young Vic theatre in London runs a scheme to enable children, otherwise denied the opportunity, to enjoy and be inspired by theatre. 3i has become an active participant in this scheme by donating £10,000.

How are we doing?

Performance and measurement

To assist it in benchmarking 3i's corporate responsibility performance, the Committee has had informal discussions with other companies and specialists in this area.
The Committee has overseen the formulation and implementation of corporate responsibility investment procedures, implemented appropriate risk management procedures and set strategic targets and objectives for corporate responsibility.

3i's performance is measured against two indices:

– the Dow Jones Sustainability World Index ("DJSI"), a global index which tracks the financial performance of leading companies in terms of corporate sustainability; and
– Business in the Community Corporate Responsibility ("BitC"), an index which aims to benchmark environmental, ethical and social performance and encourage sustainable development.

3i has again been selected as a constituent of the DJSI during the year and was placed top in its industry group on a global basis, an improvement on last year. The DJSI researchers commented that "3i is clearly positioned among the best in the financial services industry" (source: SAM Research Inc). 3i aims to continue to be included within this Index and to maintain its position in the next DJSI assessment.

3i participated in the second annual BitC Corporate Responsibility Index. 3i was included in the BitC's "Top 100 Companies that Count". 3i's performance score increased from 46.33% in the 2002 Index to 85.45% in the 2003 Index. 3i aims to continue to be included within this Index and to maintain its performance.

Each of 3i's business unit and department heads is required to confirm on an annual basis that their operating procedures, including investment procedures, are consistent with 3i's standards and controls and that these procedures are operating in practice.

3i's performance management appraisal process reviews the performance of individual members of staff against agreed objectives and the knowledge, skills and behaviours expected by 3i. This process includes 360 degree feedback for all employees.

All 3i's offices are the subject of health and safety audits to ensure high standards are adopted on a consistent basis worldwide.

Audit and verification

The Committee is responsible for monitoring the operation of 3i's corporate responsibility policies and procedures. The identification and management of corporate responsibility risks is integral to the ongoing operational processes of 3i's business units and functions. 3i's internal audit function carries out periodic independent reviews of risks and related controls in this area, including compliance with 3i's corporate responsibility investment procedures.

The Committee may also supplement internal review processes with external reviews where necessary. The Committee is not aware of any material breaches of 3i's policies and procedures for managing risks from corporate responsibility issues.

The disclosures in this Corporate responsibility report are the subject of a process requiring every statement made in this report to be verified.

"3i is clearly positioned among the best in the financial services industry."

"It is a real achievement to be one of the Companies that Count."

Board of Directors

09/02/08

01/03

04/07

01 Baroness Hogg
Non-executive Chairman since 2002 and a non-executive Director since 1997. Chairman of the Nominations Committee and the Valuations Committee. Chairman of Frontier Economics Limited. Deputy Chairman of GKN plc and a director of Carnival Corporation and Carnival plc. A Governor of the London Business School. From 1995 to 2002 Chairman of Foreign & Colonial Smaller Companies PLC. Formerly Head of the Prime Minister's Policy Unit. Aged 57.

02 Oliver Stocken
Non-executive Deputy Chairman and Senior Independent Director since 2002 and a non-executive Director since 1999. Chairman of the Audit and Compliance Committee and of the trustees of the 3i Group Pension Plan. A member of the Nominations Committee, the Remuneration Committee and the Valuations Committee. Chairman of Rutland Trust plc. A director of GUS plc, Pilkington plc, The Rank Group plc, Novar plc and Stanhope plc. Formerly Finance Director of Barclays plc. Aged 62.

03 Brian Larcombe
Chief Executive since 1997 and an executive Director since 1992. A member of the Nominations Committee and the Valuations Committee. Joined 3i in 1974. Appointed Finance Director and to the Executive Committee in 1992. A non-executive director of Smith & Nephew plc. Past Chairman of the British Venture Capital Association. Aged 50.

04 Dr John Forrest CBE FREng
Non-executive Director since 1997. A member of the Audit and Compliance Committee, the Remuneration Committee, the Nominations Committee and the Valuations Committee. Chairman of CDS Limited and of the Interregnum plc International Advisory Board. Formerly Chief Executive of NTL, Technical Director of Marconi Defence Systems Limited and Professor of Electronic Engineering at University College, London. Aged 61.

05 Martin Gagen
Executive Director since 1997, responsible for US and Asia Pacific investment. Joined 3i in 1983. Appointed to the Executive Committee in 1995 with joint responsibility for UK investment. Formerly Deputy Chairman of the British Venture Capital Association Council. Aged 48.

06 Christine Morin-Postel
Non-executive Director since 2002. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. A director of Pilkington plc, Alcan, Inc and Arlington Capital Investors (Europe). Formerly Chief Executive of Société Générale de Belgique and executive Vice-President and member of the Executive Committee of Suez. Aged 57.

07 Rod Perry CEng MIEE
Executive Director since 1999, responsible for technology investment activities worldwide and human resources. Joined 3i in 1985 as an Industrial Adviser and became Head of Information Systems in 1989. Appointed to the Executive Committee in 1996 with responsibility for group services and later Asia Pacific investment. Aged 59.

06/14

13/11

10/12/05

08 Michael Queen FCA
Executive Director since 1997. Responsible for finance and group services and a member of the Valuations Committee. Joined 3i in 1987. From 1994 to 1996 seconded to HM Treasury. Appointed Group Financial Controller in 1996 and became Finance Director and a member of Executive Committee in 1997. Past Chairman of the British Venture Capital Association. Aged 42.

09 Danny Rosenkranz
Non-executive Director since 2000. Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee and the Nominations Committee. Chairman of Foseco (Jersey) Limited and Pecaso Limited. Formerly Chief Executive of The BOC Group plc. Aged 58.

10 Fred Steingraber
Non-executive Director since 2002 and a member of the Nominations Committee. A director of Maytag Corporation and John Hancock Financial Trends Fund. A member of the Board of Governors of The Chicago Stock Exchange and of the supervisory board of Continental AG. Formerly Chairman and Chief Executive of AT Kearney, Inc and a director of Lawter International, Inc and Mercury Finance, Inc. Aged 65.

Other members of Executive Committee

11 Tony Brierley
Company Secretary since 1996, responsible for the Group's legal, compliance, internal audit and company secretarial functions. Chairman of the Corporate Responsibility Committee. Joined 3i in 1983. Appointed to the Executive Committee in 1996. Aged 54.

12 Chris Rowlands
A member of the Executive Committee since 2002, responsible for European investment and growth capital investment worldwide. Joined 3i in 2002 having previously been employed by 3i from 1984 to 1996. Formerly a Partner of Andersen. Aged 47.

13 Jonathan Russell
A member of the Executive Committee since 1999, responsible for buy-out investment worldwide. Joined 3i in 1986. Chairman of the European Private Equity and Venture Capital Association Buy-out Committee. Aged 43.

14 Paul Waller
A member of the Executive Committee since 1999, responsible for European investment and fund management. Joined 3i in 1978. Past Chairman of the European Private Equity and Venture Capital Association. Aged 49.

Directors' report

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.

The Inland Revenue has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period ended 31 March 2003. Since that date, the Company has directed its affairs to enable it to continue to be so approved.

Regulation The Company is authorised and regulated by the Financial Services Authority as a deposit taker. 3i Investments plc and 3i Japan GP Limited, both wholly owned subsidiaries of the Company, are authorised persons under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority.

Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated by relevant authorities.

Results and dividends The accounts of the Company and the Group for the year to 31 March 2004 appear on pages 47 to 68.

Consolidated total return for the period was £531 million (2003: negative sum of £935 million). An interim dividend of 5.1p per share was paid on 7 January 2004. The Directors recommend a final dividend of 8.9p per share be paid in respect of the year to 31 March 2004 to shareholders on the register at the close of business on 18 June 2004.

By a deed of waiver dated 9 June 1994, Mourant & Co. Trustees Limited as trustee of The 3i Group Employee Trust 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 it (currently 9,859,472 shares) as trustee of that trust.

Operations The Company owns substantially all the Group's investments. The Group operates through a network of 31 offices across Europe, Asia Pacific and the US.

The Group manages a number of funds established with major institutions and pension funds to make equity and equity related investments in unquoted businesses in Europe and Asia Pacific.

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. 3i Investments plc also acts as investment manager to 3i Smaller Quoted Companies Trust plc, 3i Bioscience Investment Trust plc and 3i European Technology Trust plc, investment trusts listed on the London Stock Exchange. 3i Investments plc also manages the 3i Group Pension Plan.

Business review The Chairman's statement on pages 2 and 3, the Chief Executive's statement on pages 4 and 5 and the Operating and financial review on pages 8 to 24 report on the Group's development during the year to 31 March 2004, its position at that date and the Group's likely future development.

Share capital In the year to 31 March 2004, the issued share capital of the Company increased by 2,560,906 shares to 613,479,159 shares as a result of the issue of shares to the trustee of The 3i Group Share Incentive Plan, the exercise of options under the 3i executive share option plans and The 3i Group Sharesave Scheme and the issue of shares to the nine vendors of SFK Finance Oy.

Major interests in shares As at 4 May 2004, the Company had been notified of the following interests in the Company's shares in accordance with sections 198 to 208 of the Companies Act 1985:

	%	Number of shares
FMR Corporation and Fidelity International Limited and their subsidiary companies	9.02	55,332,661
Prudential plc and subsidiary companies	5.99	36,755,893
Legal & General Investments Management Limited	3.41	20,914,010

Directors' interests Details of the Directors' interests in the Company's shares are shown in note 40 to the accounts on page 65.

Save as shown in note 40 on page 65, 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. Save as shown in note 40 on page 65, there have been no changes in the above interests between 31 March 2004 and 4 May 2004. 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' service contracts Details of Directors' employment contracts are set out in the Remuneration report on page 44.

Management arrangements 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. The contract between 3i plc and 3i Investments plc may be terminated by either party on three months' notice. The contracts between 3i plc and other Group companies may be terminated by either party on reasonable notice.

3i Investments plc provides the Group with investment management and other services, for which regulatory authorisation is required, under contracts which 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.

Corporate governance Throughout the year to 31 March 2004, the Company complied with the provisions of section 1 of the Combined Code on corporate governance issued by the Hampel Committee on Corporate Governance in June 1998 ("the Combined Code"). The Company has already taken steps to enable it to comply, with effect from 1 April 2004, with the new Combined Code ("the new Combined Code") 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 behaviours 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 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, annual operating budget and strategic plan;
- approval of the Company's interim and final accounts and changes in the Group's accounting policies or practices;
- changes relating to the capital structure of the Company or its status as a regulated entity;
- 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 Executive Committee;
- principal terms and conditions of employment of members of Executive Committee;
- changes in employee share schemes and carried interest 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 Executive Committee and the formulation and execution of risk management practices and policies.

The Board has put in place an organisational structure. This is further described below under the heading "internal control".

A Group succession and contingency plan is prepared by management and reviewed annually 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.

During the year, there were six regular meetings of the Board of Directors. All the Directors attended those meetings.

The roles of the Chairman and the Chief Executive The division of responsibilities between the Chairman of the Board, Baroness Hogg, and the Chief Executive, Mr B P Larcombe, 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. Through involvement in the interim and full year reporting process, the Company's results presentations and the Company's Annual General Meeting, 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 management committee called Executive 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 C P Rowlands, Mr J B C Russell and Mr P Waller. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

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 currently comprises the Chairman, five independent non-executive Directors and four executive Directors. The names of the Directors together with their biographical details are set out on pages 30 and 31. All the Directors served throughout the period under review.

In addition to fulfilling the legal responsibilities of a director, a non-executive Director is 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. In addition, a non-executive Director is expected to ensure high standards of financial probity on the part of the Company and monitor the effectiveness of the executive Directors.

The Board's discussions, and its approval of the Group's rolling strategic plan and annual budget, provide the non-executive Directors with the opportunity to challenge the Company's management and assist in the development of strategy. The non-executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives. This is further described below under the heading "internal control".

Directors' independence All the non-executive Directors, including the Chairman, are considered by the Board to be independent for the purposes of the new 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. The Board has considered Mr O H J Stocken and Mme C J M Morin-Postel's common directorship of Pilkington plc and concluded that it does not affect their independence.

The Board's Committees The Board is assisted by various specialised 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 and written terms of reference. The terms of reference of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee provide that no one other than the Committee Chairman and members may attend a meeting unless invited to attend by the Committee.

Details of the work of these Committees are set out below.

Audit and Compliance Committee During the year, the Audit and Compliance Committee comprised Mr O H J Stocken (Chairman), Dr J R Forrest, Mme C J M Morin-Postel and Mr F D Rosenkranz, all independent non-executive Directors. The Board is satisfied that the Committee Chairman, Mr Stocken, has recent and relevant financial experience.

The terms of reference of the Audit and Compliance Committee are available on the Company's website.

The Committee reviews the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements. Further details of this work are described below under the heading "internal control".

The Committee receives regular reports from the internal and external auditors, the regulatory compliance function and Risk Committee, details of which are described below under the heading "internal control", and monitors their activities and effectiveness. The Committee reviews the interim and annual accounts of the Company before their approval by the Board and reviews the scope of the annual audit and any audit findings. The Committee also oversees the Company's relations with its external auditors and recommends to the Board the appointment, reappointment and removal of the Company's auditors and approves the terms of their engagement and their fees. The Committee meets with the heads of the internal audit and compliance functions, and the external auditors, at least once a year in the absence of management.

The Committee also reviews the Company's "whistle blowing policy" to ensure that arrangements are in place for staff to raise, in confidence, matters of concern, for an appropriate and independent investigation of such matters and, where necessary, for follow-up action.

During the year, there were four meetings of the Audit and Compliance Committee. All members of the Committee attended those meetings, other than Mme C J M Morin-Postel who attended three meetings.

Remuneration Committee During the year, the Remuneration Committee comprised Dr J R Forrest (Chairman), Baroness Hogg (who ceased to be a member on 31 March 2004), Mr O H J Stocken and Mr F D Rosenkranz. On 1 April 2004, Mr F D Rosenkranz became the Chairman, and Mme C J M Morin-Postel was appointed a member, of the Committee. All the members of the Committee are independent non-executive Directors.

The terms of reference of the Remuneration Committee are available on the Company's website.

Details of the work of the Remuneration Committee are set out in the Remuneration report.

During the year, there were seven meetings of the Remuneration Committee. All members of the Committee attended those meetings, other than Dr J R Forrest who attended six meetings.

Nominations Committee During the year, the Nominations Committee comprised Baroness Hogg (Chairman), Dr J R Forrest, Mr B P Larcombe, Mme C J M Morin-Postel, Mr F D Rosenkranz, Mr F G Steingraber and Mr O H J Stocken. Mr R W Perry has been co-opted to assist the Committee in the appointment of a new Chief Executive.

The terms of reference of the Nominations Committee are available on the Company's website. These provide that the Chairman shall not chair the Committee when dealing with the appointment of the Chairman's successor.

The Nominations Committee and the Board regularly review the composition of the Board to ensure the balance of its membership, as between executive and non-executive Directors, and its profile, in terms of size and length of service and experience of individual Directors, remain 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. Where appropriate, 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.

Following the appointment of new non-executive Directors, the Company's major shareholders will be offered the opportunity to meet them.

During the year, there were three meetings of the Nominations Committee. All members of the Committee attended those meetings, save that Mr B P Larcombe did not attend when succession to the post of Chief Executive was discussed. Mr R W Perry attended one meeting of the Committee.

Valuations Committee During the year, the Valuations Committee comprised Baroness Hogg (Chairman), Dr J R Forrest, Mr B P Larcombe, Mr M J Queen and Mr O H J Stocken.

The Valuations Committee considers and recommends to the Board the valuations of the Group's investments to be included in the interim and final accounts of the Group and changes to valuations policy.

During the year, there were three meetings of the Valuations Committee. All members of the Committee attended those meetings.

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

Information Regular 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.

Directors' 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 offices and support departments.

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

Performance evaluation The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors with particular attention to those who are due for reappointment. A list of questions is drawn up by the Chairman with the assistance of an independent consultant. These questions provide a framework for the evaluation process. The Chairman conducts the annual performance evaluation of each of the Directors, taking into account the views of the other Directors. The Senior Independent Director conducts the annual performance evaluation of the Chairman, taking into account the views of all Directors. The results of the overall evaluation process are discussed with the independent consultant, communicated to the Board and followed by appropriate action.

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 or sixth anniversary of the 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 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 Annual General Meeting ("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;

b) all Directors to retire at least every three years; and

c) any Director aged 70 or over at the date of the AGM to retire.

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 7 July 2004, Baroness Hogg, Dr J R Forrest and Mr B P Larcombe will retire by rotation and, being eligible, Baroness Hogg offers herself for reappointment.

Biographical details of the Directors are set out on pages 30 and 31 and the Board's recommendation for reappointment is set out in the Notice of the AGM.

Relations with shareholders The Board recognises the importance of maintaining a purposeful relationship with all its 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.

In addition to receiving regular reports from the Company's brokers, the brokers make presentations to the Board and have private discussions with the non-executive Directors. Non-executive Directors are invited to attend the Company's presentation to analysts and offered the opportunity to meet shareholders.

Constructive use of the AGM The Company 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.

The Notice of the AGM held on 9 July 2003 was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, details of proxy votes received were made available and, in accordance with the recommendations of the new Combined Code, at the AGM to be held on 7 July 2004, details of the number of abstentions will also be made available. In accordance with the Company's Articles of Association, on a poll, every member who is present in person or by proxy has 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 and its managed funds.

Employment The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of gender, 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, through a Company Disability Scheme, to disabled employees who are unable to work.

The Group's principal means of keeping in touch with the views of its employees continue to be through employee appraisals, informal consultations, team briefings and staff 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.

All UK employees receive a base salary and are eligible for a performance related bonus. The Group operates an Inland Revenue approved Share Incentive Plan to encourage employees' involvement in the performance of the Group and operates share plans for senior executives and investment staff. Further details of these plans are set out in the Remuneration report.

In its international operations, the Group's remuneration policy is influenced by market conditions and practices in the countries in which it operates. The overall remuneration package of employees in the Group's non-UK operations is similar in structure to that available to UK employees, except that employees outside the UK (other than expatriate UK employees) do not participate in the 3i Group Pension Plan. Instead they participate in local state or company pension schemes as appropriate to local market conditions. As at the most recent valuation date, 98% of UK employees were members of the 3i Group Pension Plan (details of which are set out in the Remuneration report).

Investment executives both in the UK and in the Group's non-UK operations may also participate in investment performance plans and carried interest schemes, which allow executives to share directly in the future profits on investments.

Charitable and political donations Charitable donations made by the Group in the year to 31 March 2004 amounted to £253,419. Excluding the Company's matching of Give As You Earn contributions by staff, approximately 29% of those charitable donations were to charities which advance education, approximately 50% went to causes which aim to relieve poverty or benefit the community, or both, and approximately 21% went to medical charities. Further details of charitable donations are set out in the Corporate responsibility report on pages 25 to 29.

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 trading company of the Group, made payments to three organisations, detailed below, which may fall within the definition of donations to EU political organisations. These payments (annual subscriptions to the Industry Forum of £2,938, the Enterprise Forum of £1,880 and the Federal Trust of £300) amounted to £5,118.

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 10 days of purchases.

Statement of Directors' responsibilities The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the period and of the profit for the period. 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 accounts 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 accounts, have been applied consistently and applicable accounting standards have been followed. In addition, reasonable and prudent judgments and estimates have been used in the preparation of the accounts.

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 accounts.

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. Each year, the Board considers and approves a rolling strategic plan and an annual budget. 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.

Risk Committee is a management committee formed by the Chief Executive whose 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 ended 31 March 2004 and up to the date of this report. The process is regularly reviewed by the Board 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 rolling 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, set control, mitigation and monitoring procedures and review actual occurrences identifying lessons to be learnt;
- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reports against actual results, analysis of variances, scrutiny of key performance indicators 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;
- a compliance department 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

- an internal audit department 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 accounts;
- an Audit and Compliance Committee which considers significant control matters and receives reports from the internal and external auditors and the regulatory compliance function on a regular basis.

The internal control system is monitored and supported by an internal 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 the internal auditors 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 coordination with the internal auditors, they also review and test the system of internal financial control and the information contained in the Report and accounts to the extent necessary for expressing their opinion.

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 auditor 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 14 to the accounts on page 57.

Ernst & Young LLP 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 Annual General Meeting.

By order of the Board

A W W Brierley
Secretary

12 May 2004

Registered Office
91 Waterloo Road
London SE1 8XP

Remuneration report

Introduction Although 3i is a constituent of the FTSE 100 Index, its business operates within the private equity and venture capital sector. The majority of the Company's competitors comprise either partnerships of individuals managing funds for investment on behalf of third parties or unquoted subsidiaries of larger banking or financial services groups. After a difficult period, the environment in financial services has improved and recruitment activity has begun to increase. The venture capital market continues to be well funded and competitor organisations continue to be able to offer substantial rewards for their staff and competition for quality, trained executives remains aggressive. In addition to cash bonuses and share awards, investment executives in the venture capital market are often given the opportunity to participate in carried interest or co-investment schemes, which allow executives to share directly in the future profits on investments, subject normally to a variety of conditions relating to the performance of those investments.

It is against this challenging background that the Company's Remuneration Committee ("the Committee") has had to formulate and implement its remuneration policies to ensure that the Company is able to continue to attract, retain and motivate management of the quality required to ensure the continued vibrancy and success of the business as a whole. The Committee is also conscious of the need to align the interests of staff and shareholders. One of the ways in which this is achieved is by encouraging the holding of the Company's shares by its staff. The Company's policy has therefore been to provide long-term incentives to its executives through share plans and, where appropriate, investment performance plans and carried interest schemes.

Remuneration Committee

Composition and terms of reference The Committee comprises only independent non-executive Directors. Its members throughout the year to 31 March 2004 ("the year") were Dr J R Forrest (the Committee Chairman), Baroness Hogg (who ceased to be a member on 31 March 2004), Mr F D Rosenkranz and Mr O H J Stocken. None of the members of the Committee sits with any executive Director on the board of any other quoted company. Mme C J M Morin-Postel joined the Committee on 1 April 2004 when Mr F D Rosenkranz became Committee Chairman. The Committee's terms of reference take into account the provisions of the new Combined Code on corporate governance and are available on the Company's website.

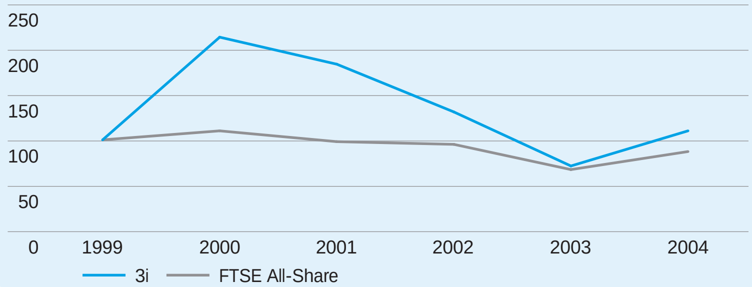
Activities during the year The Committee met seven times during the year to consider remuneration policy and to determine, on behalf of the Board, the specific remuneration packages for each of the executive Directors and all other members of the Chief Executive's management committee (called "Executive Committee"). In addition, the Committee considered and made recommendations to the Board on the Company's framework of executive remuneration and its costs. Details of attendance at meetings by members of the Committee are set out in the Directors' report.

Assistance to the Committee Persons who materially assisted the Committee with advice on Directors' remuneration in the year were: PricewaterhouseCoopers LLP ("PwC"), an external remuneration consultant appointed by the Committee; the Group's Human Resources Director, Mr R B Gregory; and (except in relation to his own remuneration) the Chief Executive, Mr B P Larcombe. Mr Gregory was not appointed by the Committee. During the year, PwC provided the Group's investment business with taxation, payroll and corporate restructuring advice, due diligence services, property services, and the services of an employee on secondment.

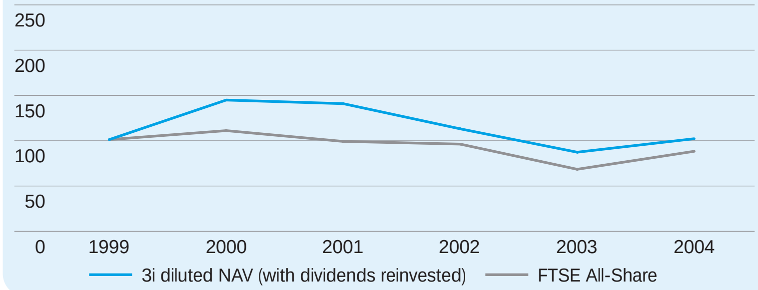
Performance graphs The left hand graph below compares the Company's total shareholder return for the five financial years of the Company to 31 March 2004 with the total shareholder return of the FTSE All-Share index. The Directors consider that since the Company invests in a broad range of industrial and commercial sectors the FTSE All-Share index is the most appropriate index against which to compare the Company's performance.

The right hand graph below compares the diluted net asset value per share at each of the last five financial year ends (with dividends reinvested) against the total shareholder return of the FTSE All-Share index on those dates. This has been included because changes in net asset value per share relative to the FTSE All-Share index are an important indicator of the long-term performance of the Company's assets.

3i total shareholder return versus FTSE All-Share total return (cumulative)
years ended 31 March



3i diluted NAV versus FTSE All-Share total return (cumulative)
years ended 31 March



Audit The tables in this report have been audited by Ernst & Young LLP.

Directors' remuneration policy

Non-executive Directors The Board's policy for the current financial year in relation to non-executive Directors (including the Chairman) continues to be to pay fees which are competitive with the fees paid by other FTSE 100 companies. Non-executive Directors' fees (other than those of the Chairman, which are determined by Remuneration Committee) are determined by the Board as a whole, within the limits set by the Company's Articles of Association, having taken advice from PwC. During the year the basic non-executive Director's fee was £30,000, the annual fee for Committee membership was £3,500 and the annual fee for Committee Chairmanship was £7,500. These fees were reviewed with effect from 1 April 2004 and the basic non-executive Directors' fee was increased to £36,000 per annum, the Committee membership fee was reduced to £2,000 per annum and the Committee Chairmanship fee was left unchanged at £7,500 per annum. Non-executive Directors are not eligible for bonuses, share options, long-term incentives, pensions or performance related remuneration. Details of the non-executive Directors' remuneration for the year are provided in the table on page 40.

The Company does not currently expect its policy on non-executive Directors' remuneration for subsequent financial years to change significantly.

Executive Directors The Company's policy for the current financial year in relation to executive Directors is to pay salaries and benefits sufficient to attract, retain and motivate Directors of the calibre required. The variable elements of each executive Director's remuneration (comprising annual cash bonuses and long-term incentives) are intended to form a significant component of the executive Director's total remuneration package. In particular, the salaries of the executive Directors are intended to represent less than half of the executive Directors' potential rewards with the remainder of the rewards being related to individual and Company performance. The Committee is sensitive to wider issues including pay and employment conditions elsewhere in the Group when setting executive Directors' pay levels and takes into account the Company's reward strategy generally, before deciding specific packages for the executive Directors. The executive Directors' performance related compensation is designed to encourage, where practicable, investment in, and the holding of, shares in the Company so as to align the interests of Directors and shareholders. The Company aims to provide pension benefits which are competitive with other FTSE 100 companies and companies in the financial services sector. The way in which this policy is applied in practice has been reviewed as described below.

Executive Directors' remuneration packages The remuneration packages of the executive Directors consist of salaries, annual bonuses and long-term incentives. In addition, the US based Director participates in a carried interest plan.

Salaries Executive Directors' base salaries are determined by the Committee in accordance with the policy referred to above.

During the year and for some years previously Directors' salaries as well as the salaries of other members of Executive Committee have been benchmarked against salaries for comparable jobs in FTSE 100 companies of similar market capitalisation. The exception to this was Mr M M Gagen (who is based in the US and whose responsibilities include the Group's US business) whose salary is benchmarked against comparable positions in US venture capital businesses. The Committee has decided that given their active role in the investment business, the remuneration of those UK based Directors (and other members of Executive Committee) with direct responsibility for investment businesses should be benchmarked against comparable positions in private equity and venture capital businesses. The only Director to whom this currently applies is Mr R W Perry.

Annual bonuses All employees, including executive Directors, are eligible for non-pensionable discretionary annual cash bonuses. Executive Directors' bonuses are determined by the Committee. Bonuses for the year, details of which are set out in the table on page 40, have been determined by the Committee based on achievement against a range of corporate and personal objectives set at the beginning of the year.

The Committee has reviewed bonus policy and adopted a framework for setting future bonuses. The Committee will determine target bonuses for each Director at the beginning of each year based on appropriate market comparators. These target bonuses will be achievable if both corporate performance targets and personal performance targets are met. In the case of Directors with direct responsibility for investment businesses the target bonus also depends on meeting business unit objectives. Bonuses above target level will be granted for outstanding performance. The Committee has set target bonuses for the year to 31 March 2005 for Directors at 90% of salary. The maximum bonus achievable will be twice the target bonus. The Committee will consider each year the extent to which it would be appropriate for a part of the annual bonus to be payable in shares deferred for two years and only payable if the Director is still employed by the Company. Any bonus above the level of 1.5 times the target bonus will in any event be in the form of deferred shares. The Committee, however, retains the right to make discretionary adjustments in exceptional circumstances.

The main measures to be used for assessing corporate performance will be:

- total shareholder return and change in net asset value per share both in absolute terms and compared with the FTSE All-Share index;
- total non-market driven return compared with budget; and
- one to three year internal rate of return compared with performance of the venture capital industry as a whole.

The Committee will also take into account a number of more detailed indicators of performance and activity, such as the level of investment, realised profits and costs.

Long-term incentives and carried interest plans The Committee determines the levels of long-term incentives and carried interest granted to executive Directors. The Committee regards the purposes of such awards as being to align the interests of executives with those of shareholders and to make continued employment with the Company attractive in relation to opportunities available elsewhere in the venture capital and private equity industry. During the year the long-term incentive arrangements for executive Directors, except the US based Director, consisted of share options and performance share awards under The 3i Group Discretionary Share Plan (the "Discretionary Share Plan"). The US based Director received awards under the US carried interest plan.

The Discretionary Share Plan The Company operates a shareholder approved executive share plan, which conforms with the Association of British Insurers' ("ABI") guidelines on dilution limits. Awards under this plan are not pensionable. The level of annual awards is reviewed each year taking account of market practice and the specific circumstances facing the Company. The Committee determines awards to executives based on an assessment of performance. All awards are granted subject to a performance target, the achievement of which will normally be a condition precedent to the exercise of the awards. Careful consideration is given each year to appropriately demanding performance targets. During the year awards of share options and performance shares were made to Directors, details of which are set out in the tables on pages 41 and 42.

During the year the Committee reviewed its practices on share awards for Directors. It decided that it would not make any changes to the way in which performance share awards are made under the Discretionary Share Plan.

Details of the performance condition used for share options from 2001 to 2003 are set out in note 4 on page 42. From 2004, the Committee proposes to set a performance condition for share options that would result in 50% of options vesting if net asset value per share with dividends re-invested increases on average by more than RPI plus three percentage points per annum over a three year performance period and 100% vesting if such net asset value increases by RPI plus eight percentage points or more. At the same time, the Committee proposes to remove the opportunities for the performance condition to be retested after four and five years (if the performance condition is not satisfied earlier) which are contained in the condition used previously.

In line with the Committee's desire to bring the Company's long-term incentives at Board level closer to practice in the venture capital industry, from 2004 the Committee proposes to raise the maximum annual award. The maximum level of award will be increased (in terms of face value) from the existing maximum level of four times salary to six times salary. This maximum applies to performance share awards and share options in combination taking into account their relative expected values.

Carried interest plans During the year the executive Director responsible for the Company's US business, currently Mr M M Gagen, participated in the carried interest plans available to investment executives based in the US. These awards are not pensionable. Details are set out in the table on page 43.

Although the Committee believes the changes in share based long-term incentives referred to above will help to bridge the gap between the Company's remuneration policies for executive Directors and arrangements in the venture capital industry, the Committee believes the Company should go further and extend to those executive Directors directly responsible for specific investment businesses the possibility of participating in the carried interest arrangements it has already put in place below Board level and for the US-based Director.

The Company therefore proposes to put forward at the 2004 Annual General Meeting proposals to allow executive Directors directly responsible for specific investment businesses to participate in the carried interest plans that have been established for the Group's investment executives. It is not proposed that the Chief Executive or the Finance Director be eligible to participate in these plans. This year the Committee does not intend to extend such arrangements to any members of the Board other than the executive Director responsible for the Company's US and Asia Pacific operations, Mr M M Gagen, who is already in such an arrangement in respect of his US responsibilities, which was approved by shareholders in 2002.

If the Company were to extend participation in carried interest to a Director, this would replace a major part of the share-based incentives which the Director would otherwise receive. Full details of the proposals relating to carried interest are set out in the Notice of the 2004 Annual General Meeting.

Directors' remuneration during the year

	Salary and fees £'000	Bonus £'000	Benefits in kind £'000	Total remuneration Year to 31 March 2004 £'000	Total remuneration Year to 31 March 2003 £'000
Executive Directors					
B P Larcombe	598	531	2	1,131	729
M M Gagen	432	246	9	687	597
R W Perry	319	341	17	677	416
M J Queen	364	360	2	726	435
Dr R D M J Summers (retired 31 December 2002)	–	–	–	–	*503*
P B G Williams (retired 31 December 2002)	–	–	–	–	*472*
Non-executive Directors					
Baroness Hogg	220	–	–	220	220
O H J Stocken	75	–	–	75	75
Dr J R Forrest	48	–	–	48	48
C J M Morin-Postel (appointed 12 September 2002)	34	–	–	34	18
F D Rosenkranz	37	–	–	37	37
F G Steingraber	30	–	–	30	30
The Lord Camoys (retired 10 July 2002)	–	–	–	–	*9*
Total	2,157	1,478	30	3,665	3,589

Notes
1 Bonuses relate to the year to 31 March 2004 and are expected to be paid in July 2004.
2 During the year, Mr M M Gagen was based in the US. Of the salary paid £310,000 was pensionable under the 3i Group Pension Plan.
3 The non-cash elements of executive Directors' remuneration packages (shown in the column headed "benefits in kind") were company cars and fuel (Mr R W Perry), health insurance (Mr B P Larcombe, Mr M J Queen and Mr R W Perry), and taxation advice and storage charges (Mr M M Gagen).
4 Mr W J R Govett, a former Director, was paid £5,000 as a director of Gardens Pension Trustees Limited, one of the trustees of the 3i Group Pension Plan.
5 Mr B P Larcombe served as a non-executive Director of Smith & Nephew plc and retained Directors' fees of £35,000.

Options to subscribe for shares The table below provides details of executive share options held by the Directors who held office during the year.

	Year of grant	Held at 1 April 2003	Granted during the year	Exercised during the year	Held at 31 March 2004	Exercise price £	Market price on date of excercise £	Date from which exercisable	Expiry date
Executive Directors									
B P Larcombe	1995	18,500		18,500	–	3.34	6.48	05.01.98	04.01.05
	1995	20,600		–	20,600	4.23		14.12.98	13.12.05
	1996	98,200		–	98,200	4.50		25.06.99	24.06.06
	1997	99,802		–	99,802	5.20		16.06.00	15.06.07
	1998	72,209		–	72,209	6.64		22.06.01	21.06.08
	1999	*45,654*		–	*45,654*	*7.28*		*06.07.02*	*05.07.09*
	2000	*25,272*		–	*25,272*	*13.75*		*28.06.03*	*27.06.10*
	2001	*192,000*		–	*192,000*	*10.00*		*09.08.04*	*08.08.11*
	2002	*327,015*		–	*327,015*	*6.73*		*27.06.05*	*26.06.12*
	2003		*100,352*	–	*100,352*	*5.68*		*25.06.06*	*24.06.13*
		899,252	100,352	18,500	981,104				
M M Gagen	1993	24,467*		24,467	–	1.68	5.975	30.07.99	29.07.03
	1994	5,000*		–	5,000*	2.72		22.06.00	21.06.04
	1997	91,013		91,013	–	5.20	6.30	16.06.00	15.06.07
	1998	30,454		–	30,454	6.64		22.06.01	21.06.08
	1999	*9,006*		–	*9,006*	*7.28*		*06.07.02*	*05.07.09*
	2000	*24,106*		–	*24,106*	*13.56*		*03.07.03*	*02.07.10*
		184,046	–	115,480	68,566				
R W Perry	1994	14,000*#		14,000	–	2.72	6.575	22.06.97	21.06.04
	1995	1,600*		–	1,600*	3.61		03.07.98	02.07.05
	1996	38,700*		–	38,700*	4.50		25.06.99	24.06.06
	1997	40,800*		–	40,800*	4.91		06.01.00	05.01.07
	1997	58,378*		–	58,378*	5.12		17.12.00	16.12.07
	1998	29,381*		–	29,381*	5.67		16.12.01	15.12.08
	1999	*10,734**		–	*10,734**	*7.28*		*06.07.02*	*05.07.09*
	2000	*20,294*		–	*20,294*	*13.75*		*28.06.03*	*27.06.10*
	2001	*100,000*		–	*100,000*	*10.00*		*09.08.04*	*08.08.11*
	2002	*145,670*		–	*145,670*	*6.73*		*27.06.05*	*26.06.12*
	2003		*35,211†*	–	*35,211*	*5.68*		*25.06.06*	*24.06.13*
		459,557	35,211	14,000	480,768				
M J Queen	1994	4,000*#		–	4,000*#	2.72		22.06.97	21.06.04
	1995	1,800*		–	1,800*	3.61		03.07.98	02.07.05
	1996	40,850*		–	40,850*	4.50		25.06.99	24.06.06
	1997	37,073*		–	37,073*	5.20		16.06.00	15.06.07
	1998	62,177		–	62,177	6.64		22.06.01	21.06.08
	1999	*36,002*		–	*36,002*	*7.28*		*06.07.02*	*05.07.09*
	2000	*30,795*		–	*30,795*	*13.75*		*28.06.03*	*27.06.10*
	2001	*114,000*		–	*114,000*	*10.00*		*09.08.04*	*08.08.11*
	2002	*184,318*		–	*184,318*	*6.73*		*27.06.05*	*26.06.12*
	2003		*57,218*	–	*57,218*	*5.68*		*25.06.06*	*24.06.13*
		511,015	57,218	–	568,233				

The performance condition has not yet been met for those options shown in italics.

* Awarded before appointment as a Director.

\# Of these options half became exercisable on the date shown and half became exercisable three years from that date.

† Options granted to Mr R W Perry in 2003 were pro-rated approximately in the proportion that his prospective service from the date of grant to his normal retirement date at age 60 bore to the performance period of three years.

Notes

1 Options normally only become exercisable if the performance conditions referred to below are met.

2 Options granted in 1993 and 1994 were granted under The 3i Executive Share Option Plan (the “1984 Plan”) and are normally exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not normally exercisable before the sixth anniversary. These options are normally exercisable only if the net asset value per share on the last day of the financial period ending immediately before the third anniversary of the date of grant or on the last day of any financial period thereafter, is equal to or in excess of the net asset value per share on the date of grant compounded by the respective annual percentage movement in the Retail Prices Index (“RPI”).

3 Options granted between 1 January 1995 and 31 March 2001 were granted under The 3i Group 1994 Executive Share Option Plan (the “1994 Plan”) and are normally exercisable between the third and tenth anniversaries of the date of grant provided that a performance condition has been met over a rolling three year period. This requires that the adjusted net asset value per share (after adding back dividends paid during the three year performance period) at the end of the three year period is equal to or in excess of the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in RPI plus 4%.

Notes continued

4 Options granted after 31 March 2001 were granted under The 3i Group Discretionary Share Plan (the "Discretionary Share Plan") and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. If, however, the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant but from the same base year. The performance target applicable to options granted since 31 March 2001 is set out in the table below:

Annual percentage compound growth in net asset value per share with dividends reinvested, relative to the annual percentage change in the Retail Prices Index	Percentage of the grant vesting
Below RPI + 5 percentage points	0%
At least RPI + 5 percentage points	50%
At levels of performance between RPI + 5 percentage points and RPI + 10 percentage points the grant will vest pro rata	
At least RPI + 10 percentage points	100%

5 These performance conditions were based on increases in net asset value so as to enable a significant proportion of executive Directors' potential remuneration to be linked to an increase in the assets of the Company. The intention has been to approximate to the performance conditions attached to carried interest schemes in the venture capital market whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The Committee determines whether the performance conditions have been fulfilled on the basis of calculations which are reviewed by the Company's auditors. The minimum target of RPI +5%, and the maximum target of RPI +10% for options granted since 31 March 2001, was chosen as being appropriately demanding in the prevailing market conditions at the time.

6 For US legal and regulatory reasons, in 2001 Mr M M Gagen was granted phantom share options (contractual rights to payments in circumstances designed to mirror the effect of an option to acquire shares under the Discretionary Share Plan) on the same terms and conditions as share options granted to other Directors in that year. The details of these phantom share options are set out in the table below:

	Held at 1 April 2003	Granted during the year	Exercised during the year	Held at 31 March 2004	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Director								
M M Gagen	114,000	–	–	114,000	10.00	–	09.08.04	08.08.11

7 The mid-market price of shares in the Company at 31 March 2004 was 629p and the range during the period 1 April 2003 to 31 March 2004 was 418p to 686p. The aggregate of the amount of gains made by Directors on the exercise of share options in the year (including on exercise of awards under the Management Equity Investment Plan detailed on pages 44 and 45) was £1,122,425 (2003: £nil). The amount attributable to Mr B P Larcombe was £239,729 (2003: £nil). Options under the 1984 Plan, the 1994 Plan and the Discretionary Share Plan have been granted with exercise prices not less than the prevailing market value. Options are granted at no cost to the option holder. No options held by Directors lapsed during the year.

Performance Share Awards The table below provides details of performance share awards held by the Directors who held office during the year.

	Held at 1 April 2003	Granted during the year	Vested during the year	Held at 31 March 2004	Market price on date of grant £	Date of vesting
Executive Director						
B P Larcombe	–	75,264	–	75,264	£5.56	24.06.06
R W Perry†	–	26,408	–	26,408	£5.56	24.06.06
M J Queen	–	42,913	–	42,913	£5.56	24.06.06

† Performance shares awarded to Mr R W Perry in 2003 were pro-rated approximately in the proportion that his prospective service from the date of grant to his normal retirement date at age 60 bore to the performance period of three years.

Performance share awards are awards of shares, which are transferred to the participant by an employee benefit trust on terms that the shares may, in certain circumstances, be forfeited. While the shares are subject to forfeiture they may not be sold, transferred or used as security. Awards are subject to a performance condition determining whether and to what extent the award will vest. Non-vested shares are forfeited. The performance condition provides for shares to vest based on the Company's "percentage rank" by total shareholder return for the period of three years from grant (averaged over a 60 day period) compared to a comparator group. The comparator group consists of the FTSE 100 index constituents at the grant date (adjusted for mergers, demergers and delistings during the performance period). A company's percentage rank is its rank in the comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. If the Company's percentage rank is less than 50% none of the shares vest. At a percentage rank of 50%, 35% of the shares vest and at 75%, all the shares vest. Between these points shares vest pro rata. This condition was chosen to align the interests of executive Directors and shareholders by linking a proportion of their remuneration to shareholder returns relative to a comparator index of which the Company is a constituent. The Committee will determine the extent to which this condition has been met based on calculations prepared by the Committee's remuneration consultant.

US Carried Interest Plan Awards The following table provides details of the awards provided to Mr M M Gagen under the US carried interest plans.

	Points as at 1 April 2003	Points allocated during the year	Payments received during the year	Points as at 31 March 2004
Executive Director				
M M Gagen	115 (2000 Vintage)		–	115 (2000 Vintage)
	52 (2001 Vintage)		–	52 (2001 Vintage)
	111 (2002 Vintage)		–	111 (2002 Vintage)
	135 (2003 Vintage)		–	135 (2003 Vintage)
		135 (2004 Vintage)	–	135 (2004 Vintage)

The plans operate on the basis of five annual "vintages" of investments from 2000 to 2004 inclusive and points are used to allocate carried interest between participants. New investments made in a particular financial year belong to the same vintage. Further investments in subsequent years are treated as belonging to the vintage in which the first investment was made. Payments will be made to the executive Director in relation to his points for a particular vintage when proceeds from the realisation of investments are received. If the value of investments for a vintage (both realised and unrealised) exceeds a specified internal rate of return (10% for the vintage years ended 31 March 2000 and 2001 and 8% for the vintage years ended 31 March 2002, 2003 and 2004), a proportion of the realised profits will be paid to the executive Director in accordance with his points. If the specified internal rate of return is not achieved, no amounts will be paid to the executive Director. The number of points allocated to the US based Director was determined by the Committee after taking into account market practice in the US. The conditions determining payments under the plans were chosen so as to link participants' rewards to realised profits from investments.

The points set out in the above table provide Mr M M Gagen with the opportunity (subject as mentioned above) to benefit over time by the amount of profit realised on investments having an aggregate original cost of US $6,056,000. Currently the points have no accrued value.

The Share Incentive Plan Eligible UK employees, including executive Directors, may participate in the Inland Revenue approved Share Incentive Plan. During the year participants could invest up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company granted two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed within three years of grant. Dividends are reinvested on behalf of participants in further shares (referred to as dividend shares). Details of shares acquired by the executive Directors under this Plan during the year are set out in the table below.

	Held at 1 April 2003 Partnership shares	Held at 1 April 2003 Matching shares	Held at 1 April 2003 Dividend shares	Held at 31 March 2004 Partnership shares	Held at 31 March 2004 Matching shares	Held at 31 March 2004 Dividend shares
Executive Directors						
B P Larcombe	293	586	8	545	1,090	33
R W Perry	293	586	8	545	1,090	33
M J Queen	276	552	6	529	1,058	31

Note Since 31 March 2004, Mr B P Larcombe, Mr R W Perry and Mr M J Queen have each acquired a further 20 partnership shares and have been awarded a further 40 matching shares. During the year, shares were awarded at prices between 448p and 659p per share.

Pension arrangements The executive Directors are members of the 3i Group Pension Plan which is a defined benefit contributory scheme to which, at the most recent valuation date, 98% of UK employees belonged. The plan provides for a pension, subject to Inland Revenue limits, of two thirds of basic annual salary (limited to the Earnings Cap where this applies) on retirement (normally at age 60) after 25 years' service and less for service under 25 years. The plan also provides life cover of four times salary, pensions payable in the event of ill health and spouses' pensions on death. Further details of the plan are set out in note 12 to the accounts on pages 56 and 57.

Details of the pension entitlements of Directors who served during the year are provided in the table below. The final column of the table gives the difference between the transfer value of the Director's pension entitlement at the start of the year and the transfer value at the end, less the contributions paid by the Director. The difference over the year is the result of any extra benefits earned over the year and any change in the value placed on £1 p.a. of pension by the actuaries. The value placed on £1 p.a. of pension reflects financial conditions at the time (eg the level of the stock market or returns available on government bonds) and the method and assumptions they use to calculate transfer values from time to time. Changes in the value placed on £1 p.a. of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

	Age at 31 March 2004	Complete years of pensionable service at 31 March 2004	(Note 1) Increase in accrued pension (excluding inflation) during the year to 31 March 2004 £'000 p.a.	(Note 2) Total accrued pension at 31 March 2004 £'000 p.a.	(Note 3) Transfer value of increase in accrued benefits at 31 March 2004, less Director's contribution £'000 p.a.	(Note 1) Increase in accrued pension (including inflation) during the year to 31 March 2004 £'000 p.a.	(Note 3) Transfer value of the accrued benefits at 31 March 2004 £'000	(Note 5) Transfer value of the accrued benefits at 31 March 2003 £'000	Difference between transfer values at start and end of the accounting year, less Director's contribution £'000
Executive Directors									
B P Larcombe	50	29	2	422	5	13	5,275	5,396	(129)
M M Gagen	48	19	4	160	37	8	1,786	1,809	(26)
R W Perry	58	18	16	159	317	20	3,284	2,852	428
M J Queen	42	16	18	157	147	22	1,331	1,255	72

Notes
1 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.
2 The pensions shown are deferred pensions payable from age 60.
3 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2004 (GN11 Actuarial Guidance Note (version 9.1)).
4 Additional voluntary contributions are excluded from the above table.
5 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2003 (GN11 Actuarial Guidance Note (version 8.1)).

Directors' service contracts The non-executive Directors, including the Chairman, hold office in accordance with the Articles of Association of the Company and do not have service contracts. Non-executive Directors' appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

Company policy is that in normal circumstances executive Directors' notice periods should not exceed one year. Each executive Director other than Mr M M Gagen has an employment contract with 3i plc with a notice period of 12 months if notice is given by the employer and six months if notice is given by the Director. Save for these notice periods the contracts have no unexpired terms. These contracts of employment date from when the Directors were first employed by the Group, being 23 September 1974 for Mr B P Larcombe, 1 July 1985 for Mr R W Perry and 22 June 1987 for Mr M J Queen. These contracts contain no specific provisions for the payment of compensation in the event of early termination. Mr M M Gagen has an employment contract with 3i Corporation dated 12 July 2000 under which he is required to give six months' notice but which may be terminated by the employer by immediate notice. In the event of termination of employment by the employer on immediate notice (other than for cause) Mr M M Gagen will be entitled to receive his base salary for a period of 12 months following termination.

The Committee considers that compensation payments on early termination of employment should depend on individual circumstances. The duty of Directors to mitigate their loss will always be a relevant factor. Under the rules of the Company's share option and other award plans, a Director may be permitted to exercise options and awards within 12 months of leaving the Company for all the Plans, except the Discretionary Share Plan, under which a Director is entitled to exercise options within six months of the date the options vest, if at all.

Directors' share interests As at 31 March 2004 the current executive Directors had the shareholdings in the Company's shares shown below.

	31 March 2004 shares	31 March 2003 shares
B P Larcombe	761,126	741,845
M M Gagen	91,055	91,055
R W Perry	37,217	22,436
M J Queen	130,919	130,135

These figures exclude conditional rights to acquire shares under the Management Equity Investment Plan detailed below in the section headed Historic awards and performance share awards under the Discretionary Share Plan. Full details of the Directors' interests in the Company's shares are shown in note 40 to the accounts on page 65.

Historic awards This section of the Remuneration report gives details of historic awards held by Directors under the Management Equity Investment Plan.

Deferred share bonuses under the Management Equity Investment Plan Until 31 March 2001 executives could receive part of their annual bonus in the form of a deferred award of shares. The value of these awards was reported each year as remuneration for the year in respect of which they were awarded. Awards took the form of share options issued by an employee benefit trust to acquire shares at no cost to themselves after three years provided they remained in employment with the Group and, in the case of executive Directors, they had maintained an agreed shareholding during the three year period. There was no performance condition since the award was considered part of the bonus already earned. In 1997 and 1998, instead of granting nil-cost options, executives were granted market value options but also received a deferred cash bonus of the same amount which was payable only for the purpose of funding the exercise price payable when awards were exercised.

	Year of grant	Held at 1 April 2003	Granted during the year	Exercised during the year	Held at 31 March 2004	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
B P Larcombe	1997	11,348	–	11,348	–	5.155	6.34	09.06.00	08.06.04
	1998	12,443	–	–	12,443	6.63		15.06.01	14.06.05
	1999	13,681	–	–	13,681	Nil		23.07.02	22.07.06
	2000	9,699	–	–	9,699	Nil		28.06.03	27.06.07
	2001	6,400	–	–	6,400	Nil		09.08.04	08.08.08
		53,571	–	11,348	42,223				
M M Gagen	1998	9,049	–	–	9,049	6.63		15.06.01	14.06.05
	1999	8,333	–	8,333	–	Nil	6.25	23.07.02	22.07.06
	2000	6,668	–	6,668	–	Nil	6.25	28.06.03	27.06.07
		24,050	–	15,001	9,049				
R W Perry	1998	6,787*	–	–	6,787	6.63		15.06.01	14.06.05
	1999	5,970*	–	5,970	–	Nil	5.55	23.07.02	22.07.06
	2000	5,819	–	–	5,819	Nil		28.06.03	27.06.07
	2001	3,600	–	–	3,600	Nil		09.08.04	08.08.08
		22,176	–	5,970	16,206				
M J Queen	1997	5,075*	–	5,075	–	5.155	5.82	09.06.00	08.06.04
	1998	8,144	–	–	8,144	6.63		15.06.01	14.06.05
	1999	8,333	–	–	8,333	Nil		23.07.02	22.07.06
	2000	6,668	–	–	6,668	Nil		28.06.03	27.06.07
	2001	4,000	–	–	4,000	Nil		09.08.04	08.08.08
		32,220	–	5,075	27,145				

* Awarded before appointment as a Director.

Performance linked awards under the Management Equity Investment Plan As well as receiving share bonus awards, from 1997 to 2000, executives could also be offered awards linked to the longer term performance of the Group. Participants were awarded a share option by an employee benefit trust to acquire shares at no cost to themselves after five years provided a performance condition had been satisfied. In 1997 and 1998, instead of granting nil-cost options, executives were granted market value options but also received a deferred cash bonus of the same amount which was payable only for the purpose of funding the exercise price payable when awards were exercised.

	Year of grant	Held at 1 April 2003	Granted during the year	Exercised during the year	Held at 31 March 2004	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
B P Larcombe	1997	17,313	–	17,313	–	5.155	6.34	09.06.02	08.06.04
	1998	7,682	–	–	7,682	6.63		15.06.03	14.06.05
	1999	12,714	–	–	12,714	Nil		23.07.04	22.07.06
	2000	51,518	–	–	51,518	Nil		28.06.05	27.06.07
		89,227	–	17,313	71,914				
M M Gagen	1997	28,353	–	28,353	–	5.155	6.25	09.06.02	08.06.04
	1998	1,652	–	–	1,652	6.63		15.06.03	14.06.05
	1999	38,182	–	–	38,182	Nil		23.07.04	22.07.06
	2000	30,090	–	–	30,090	Nil		28.06.05	27.06.07
		98,277	–	28,353	69,924				
R W Perry	1998	23,540*	–	23,540	–	5.155	5.55	09.06.02	08.06.04
	1999	842*	–	–	842	Nil		23.07.04	22.07.06
	2000	21,054	–	–	21,054	Nil		28.06.05	27.06.07
		45,436	–	23,540	21,896				
M J Queen	1998	27,348	–	27,348	–	5.155	5.82	09.06.02	08.06.04
	1999	46,817	–	–	46,817	Nil		23.07.04	22.07.06
	2000	25,776	–	–	25,776	Nil		28.06.05	27.06.07
		99,941	–	27,348	72,593				

* Awarded before appointment as a Director.

The performance condition provides that no shares vest unless the increase in the Company's total shareholder return (TSR) over a three year performance period is equal to or exceeds the compounded annual increase in the RPI over the period + 6% per annum. If the Company's TSR over the period is equal to the compounded annual increase in the RPI over the period + 6% per annum, 35% of the shares vest and all shares vest if TSR is equal to or exceeds RPI + 20% per annum. At performance between these levels, a proportion of shares vest. If the minimum performance condition is not achieved in the three year performance period, the performance period is extended up to a maximum period of seven years but from the same base year. The Committee decided that a performance condition linked to shareholder return was in shareholders' interests and by linking the condition to RPI inflationary increases were discounted. The minimum TSR target of RPI + 6% per annum, and the maximum TSR target of RPI + 20% per annum, were chosen as being suitably demanding at that time whilst aligning the interests of participants and shareholders. The Group's Human Resources department calculates whether and the extent to which the performance condition has been satisfied in accordance with the formula and this calculation is audited by the Company's auditors.

By order of the Board

F D Rosenkranz
Chairman, Remuneration Committee

12 May 2004

Independent auditors' report to the members of 3i Group plc

We have audited the Group's financial statements for the year ended 31 March 2004, which comprise Consolidated statement of total return, Reconciliation of movement in shareholders' funds, Consolidated revenue statement, Consolidated balance sheet, Parent company balance sheet, Consolidated cash flow statement, Accounting policies and the related notes 1 to 49. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors The Directors are responsible for preparing the Annual Report including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' responsibilities in relation to the Financial Statements. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 33 to 37 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Chairman's statement, Chief Executive's statement, Operating review, Financial review, Corporate responsibility report, Directors' report, unaudited part of the Remuneration report, Principal subsidiary undertakings and joint ventures, Portfolio valuation methodology and Investment analysis. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinion In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004 and of the profit of the Group for the year then ended; and the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

London

12 May 2004

Consolidated statement of total return

for the year to 31 March 2004

	Notes	Revenue 2004 £m	Capital 2004 £m	Total 2004 £m	Revenue 2003 £m	Capital 2003 £m	Total 2003 £m
Capital profits							
Realised profits on disposal of investments	2		228	228		190	190
Unrealised profits/(losses) on revaluation of investments	3		336	336		(1,159)	(1,159)
			564	564		(969)	(969)
Carried interest and investment performance plans	4		(40)	(40)		(12)	(12)
			524	524		(981)	(981)
Total operating income before interest payable	1	262	5	267	298	10	308
Interest payable	7	(51)	(42)	(93)	(57)	(53)	(110)
		211	487	698	241	(1,024)	(783)
Administrative expenses	10	(72)	(91)	(163)	(64)	(89)	(153)
Cost of changes to organisational structure	13	–	–	–	(5)	(5)	(10)
Return before tax and currency translation adjustment	1	139	396	535	172	(1,118)	(946)
Tax	15	(29)	25	(4)	(32)	35	3
Return for the year before currency translation adjustment		110	421	531	140	(1,083)	(943)
Currency translation adjustment		24	(24)	–	6	2	8
Total return		134	397	531	146	(1,081)	(935)
Total return per share							
Basic (pence)		21.9p	64.9p	86.8p	23.9p	(177.1)p	(153.2)p
Diluted (pence)		21.0p	62.2p	83.2p	23.9p	(176.9)p	(153.0)p

Reconciliation of movement in shareholders' funds

	2004 £m	2003 £m
Opening balance	2,936	3,945
Revenue return	134	146
Capital return	397	(1,081)
Total return	531	(935)
Dividends	(84)	(81)
Proceeds of issues of shares	12	7
Movement in the year	459	(1,009)
Closing balance	3,395	2,936

Consolidated revenue statement

for the year to 31 March 2004

	Notes	2004 £m	2003 £m
Interest receivable			
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments			
Interest receivable on loan investments	5	84	96
Fixed rate dividends	5	8	17
		92	113
Other interest receivable and similar income	6	33	34
		125	147
Interest payable	7	(51)	(57)
Net interest income		74	90
Dividend income from equity shares	8	94	106
Share of net (losses) of joint ventures		(1)	(1)
Fees receivable	9	43	46
Other operating income		1	–
Total operating income		211	241
Administrative expenses and depreciation	10	(72)	(64)
Cost of changes to organisational structure	13	–	(5)
Profit on ordinary activities before tax	14	139	172
Tax on profit on ordinary activities	15	(29)	(32)
Profit for the year		110	140
Dividends			
Interim	17	(31)	(29)
Final	17	(53)	(52)
Profit retained for the year		26	59
Earnings per share			
Basic (pence)	18	18.0p	22.9p
Diluted (pence)	18	17.2p	22.9p

There is no material difference between the reported revenue and the revenue on an unmodified historical cost basis.

Consolidated balance sheet

as at 31 March 2004

Assets	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Treasury bills and other eligible bills			1		1
Loans and advances to banks	20		534		527
Debt securities held for treasury purposes	21		284		283
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	22	1,312		1,336	
Fixed income shares	22	150		228	
		1,462		1,564	
Equity shares					
Listed	22	225		187	
Unlisted	22	2,639		2,188	
		2,864		2,375	
			4,326		3,939
Interests in joint ventures	23				
Share of gross assets		80		104	
Share of gross liabilities		(53)		(81)	
			27		23
Tangible fixed assets	25		40		45
Own shares	26		55		44
Other assets	27		80		64
Prepayments and accrued income	28		65		73
Total assets			5,412		4,999
Liabilities					
Deposits by banks	29		215		423
Debt securities in issue	30		1,128		1,350
Convertible bonds	31		367		–
Other liabilities	36		57		56
Accruals and deferred income	37		199		173
Provisions for liabilities and charges	38		6		10
Subordinated liabilities	39		45		51
			2,017		2,063
Called up share capital	40		307		305
Share premium account	41		359		349
Capital redemption reserve	41		1		1
Capital reserve	41		2,337		1,940
Revenue reserve	41		391		341
Equity shareholders' funds			3,395		2,936
Total liabilities			5,412		4,999
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		21		19
Commitments	49		333		270

Approved by the Board

Baroness Hogg
Brian Larcombe
Directors

12 May 2004

Parent company balance sheet

as at 31 March 2004

Assets	Notes	2004 £m	2004 £m	2003 £m	2003 £m
Loans and advances to banks	20		435		431
Debt securities held for treasury purposes	21		284		283
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	22	1,217		1,258	
Fixed income shares	22	148		224	
		1,365		1,482	
Equity shares					
Listed	22	219		180	
Unlisted	22	2,440		1,999	
		2,659		2,179	
			4,024		3,661
Interests in joint ventures	23		10		1
Shares in Group undertakings	24		47		66
Tangible fixed assets	25		25		26
Other assets	27		83		72
Prepayments and accrued income	28		44		50
Total assets			4,952		4,590
Liabilities					
Deposits by banks	29		113		248
Debt securities in issue	30		925		997
Convertible bonds	31		367		–
Other liabilities	36		256		441
Accruals and deferred income	37		76		47
Provisions for liabilities and charges	38		–		–
Subordinated liabilities	39		–		2
			1,737		1,735
Called up share capital	40		307		305
Share premium account	41		359		349
Capital redemption reserve	41		1		1
Capital reserve	41		2,085		1,762
Revenue reserve	41		463		438
Equity shareholders' funds			3,215		2,855
Total liabilities			4,952		4,590
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		21		16
Commitments	49		271		260

Approved by the Board

Baroness Hogg
Brian Larcombe
Directors

12 May 2004

Consolidated cash flow statement

for the year to 31 March 2004

	Notes	2004 £m	2003 £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments		66	75
Other interest received and similar income		35	31
Interest paid on borrowings		(59)	(58)
Dividends received from equity shares		93	102
Fees and other net cash receipts		41	46
Operating and administrative costs paid		(86)	(68)
Net cash inflow from operating activities	43	90	128
Taxation (paid)/received		(2)	4
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans		(756)	(673)
Investment in equity shares and loans acquired from joint ventures		–	(17)
Sale, repayment or redemption of equity shares, fixed income shares and loan investments		913	975
Fees intrinsic to acquisition or disposal of investments		5	10
Investment interest paid		(42)	(53)
Investment administrative expenses		(91)	(94)
Investment in joint ventures		(25)	(54)
Divestment or repayment of interests in joint ventures		25	19
Purchase of tangible fixed assets		(2)	(5)
Sale of tangible fixed assets		1	1
Net cash flow from capital expenditure and financial investment		28	109
Equity dividends paid		(83)	(78)
Management of liquid resources	47	(15)	15
Net cash flow before financing		18	178
Financing			
Debt due within one year	46	(232)	(104)
Debt due after more than one year	46	200	(32)
Issues of shares	44	12	7
Net cash flow from financing		(20)	(129)
(Decrease)/increase in cash	46	(2)	49

Accounting policies

A Accounts presentation and convention These accounts have been prepared under the historical cost convention modified to include certain investments and fixed assets at valuation and in accordance with the Statement of Recommended Practice – Financial Statements of Investment Trust Companies ("SORP") – and applicable accounting standards, except as described below concerning the treatment of capital profits.

As the Company is authorised and regulated by the Financial Services Authority as a deposit taker, the accounts have also been prepared in accordance with the requirements of Part VII of the Companies Act 1985 in respect of banking companies and groups.

The Articles of Association of the Company prohibit the distribution of its capital profits. Accordingly, the Company's capital profits, shown in note 41, are included in the capital reserve. In order to use consistent accounting policies in the Group accounts, the capital profits of subsidiary undertakings have been excluded from consolidated revenue and included in capital reserve. These capital profits of subsidiary undertakings are distributable. The Revenue statement of the Company has been omitted from these accounts in accordance with section 230 of the Companies Act 1985.

As the charge for carried interest and investment performance plans has become more significant, it has been shown separately this year to give greater clarity. Consequently, certain comparatives have been restated to reflect this.

Fees receivable earned and deal related costs incurred as an intrinsic part of an intention to acquire or dispose of an investment, have been accounted for directly in the capital reserve. To the extent that taxation losses have been transferred between capital and revenue in order to be utilised against excess taxable profits, the transfer is reflected in the Statement of total return, Revenue statement and note 15.

Administrative expenses associated with making and managing investments are allocated between capital and revenue. Finance costs less interest income on surplus funds have been allocated between revenue and capital. This allocation is 70% to capital and 30% to revenue for both administrative expenses and net finance costs.

B Joint ventures and associated undertakings Entities whose business is in a field of activity which is closely related or complementary to that of the Group and in which holdings are intended to be retained on a long-term basis and are jointly controlled by the Group and one or more venturers under a contractual agreement are treated as joint ventures. These joint ventures are accounted for using the gross equity method of accounting.

The Directors believe that equity accounting for investments which may come within the Companies Act definition of associated undertakings, because the Group exerts significant influence, would not give a true and fair view of the income from the investment activities of the Group, since this is better measured by the inclusion of dividends and interest income. It is impracticable to quantify the effects of this departure. The treatment adopted is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

C Fixed assets in use by the Group Fixed assets in use by the Group 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. Properties in use by the Group are included at external professional valuation, which is carried out at each balance sheet date. Depreciation is not provided against the value of the buildings as the amount is immaterial and impairment is considered annually. Motor vehicles being acquired on hire purchase are capitalised in the balance sheet and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the revenue account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

D Financial fixed assets Loan investments, fixed income and equity share investments, together with interests in joint ventures and the shares in Group undertakings, are regarded as financial fixed assets as they are held for long-term investment purposes.

E Valuation of financial fixed assets and investment properties Investment packages comprising mixtures of equity shares, fixed income shares and loan investments, together with financial fixed assets of joint ventures, are included at the Directors' estimate of Fair Value on the following bases:

a Listed investments and quoted shares for which an active market exists are valued at mid-market price. This value is reduced by an appropriate discount dependent on the size of the Group's holding relative to normal trading volumes.

b Unquoted investments are valued by the Directors as follows: new investments are generally valued at cost until the first set of accounts for a full financial period subsequent to investment are received. An enterprise value for the investee company is estimated using various methodologies, and, after adjusting for higher-ranking debt and an appropriate marketability discount, is apportioned over the remaining instruments including the Group's investments in loans, fixed income shares and equity shares. Standard methodologies include applying an average sector earnings multiple to operating profits, valuation by reference to the net asset base and the price of recent investments made in the investee company. If failure is expected the equity shares are valued at nil and the fixed income shares and loan investments are valued at the lower of cost or net recoverable amount.

c In all of the above categories of investment where failure has occurred the loss is charged against realised capital profits.

d Deferred consideration is included at the estimated present value of the expected future proceeds. Investment properties are included at external professional valuation.

F Income recognition Dividends receivable on listed shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the right to receive payment is established. The fixed return on a loan investment is recognised on a time apportionment basis so as to reflect the effective yield on the loan. Other income, including interest receivable from derivatives, is recognised on the accruals basis except for income from finance leases and hire purchase contracts, which is credited to revenue so as to result in a constant periodic rate of return on the net cash investment.

G Administrative expenses Administrative expenses which comprise the costs of making and managing investments and the management of the Group are accounted for on an accruals basis. Costs associated with making and managing investments are allocated to revenue and capital profits. Costs of management of the Group are charged to revenue profit. Costs incurred as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for in full as part of capital return as opposed to being allocated between revenue and capital.

H Finance costs Finance costs, including those of derivatives, are accounted for on an accruals basis. Discounts, premiums and expenses arising on the issue of bonds and notes are amortised over the period of the related borrowing.

I Trading assets Loans and advances to customers and other non-investment assets are carried at the lower of book amount and recoverable amount.

J Deferred tax Provision is made for deferred tax, using the liability method, on all material timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided at a rate at which it is anticipated the timing difference will reverse. Provision is also made for deferred tax on the unrealised appreciation of investment held by certain subsidiaries, as reduced by losses, where these are expected to crystallise in the future. Deferred tax assets are recognised only when there is evidence that there will be taxable profits in the future to offset the deferred tax asset.

K Foreign currency translation Foreign currency revenue items, assets and liabilities, including those of non-UK subsidiary undertakings, are translated into sterling at the exchange rates ruling at the balance sheet date, with the exception of borrowings covered by forward exchange contracts which are translated at the contracted rates of exchange. Exchange adjustments arising on the translation of investments, borrowings and net assets including those of overseas subsidiary undertakings are dealt with through the appropriate reserves. Exchange adjustments arising on realised transactions are dealt with in the revenue or capital profit for the period as appropriate.

L Pensions Contributions made to pension schemes are charged so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual periods using the projected unit method. Variations in pension cost, which are identified as a result of independent actuarial valuations, are spread over the average remaining service lives of the current employees. To the extent to which such costs, after interest, do not equate with cash contributions, an accrual or prepayment is recognised in the balance sheet.

International financial reporting standards

In June 2002, the European Union adopted a regulation that requires, from 1 January 2005, European listed companies to prepare their consolidated financial statements in accordance with international accounting standards. The Group's 2006 financial statements will therefore be prepared in accordance with International Financial Reporting Standards ("IFRS"). These comprise not only IFRS but also International Accounting Standards ("IAS").

In the light of the European Union decision, the International Accounting Standards Board ("IASB") announced its commitment to have a platform of high quality, improved standards in place by the end of March 2004. This has largely been met. Certain key standards continue to be under review. These include IAS 39 'Financial Instruments: Recognition and Measurement' and IAS 19 'Employee Benefits'. In addition, a project is being undertaken to devise a Statement of Comprehensive Income, which would replace the single column profit and loss account required by IAS 1 'Presentation of Financial Statements'.

Under IFRS the SORP generally ceases to be applicable. However, it is as yet unclear how the Inland Revenue intends to apply going forward the Investment Trust status requirements of section 842 Income and Corporation Taxes Act 1988. Dependent on this is the continuing need to maintain a separate analysis of Revenue and Capital. The Group will also be impacted by IAS 10 'Events after the Balance Sheet Date' in accordance with which dividends payable are accounted for in the period in which they are declared as opposed to under current UK GAAP when they are accounted for in the period when they are proposed.

During 2003, the Group formed a project team and initiated a programme to change its accounting policies and practices to be IFRS compliant by 2005. Activities during 2003/2004 have included documenting differences between the Group's current accounting policies and IFRS, detailed planning for the move to IFRS, identification of implementation methodologies, the specification of IT requirements and raising awareness of IFRS throughout the Group. Additionally, the team is assisting functions to consider the wider business impacts of the move to IFRS and the convergence of current UK GAAP with IFRS. This work is advancing to plan. The main risks and uncertainties relate to the standards that have not yet been fully finalised. However, the Group is confident that it will be able to meet requirements for financial reporting during the year to 31 March 2006.

Notes to the accounts

1 Segmental analysis of total return

The Group carries on its private equity business in four geographical areas, the United Kingdom, continental Europe, the US and Asia Pacific and has one principal activity – the making of investments. The information shown below is based on the geographical location of investee companies and for the US and Asia Pacific also includes the results of older joint venture businesses.

Geographical areas	United Kingdom 2004 £m	Continental Europe 2004 £m	US 2004 £m	Asia Pacific 2004 £m	Total 2004 £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	67	22	2	1	92
Dividend income from equity shares	83	10	1	–	94
Fees receivable	22	24	–	2	48
Other income	28	5	–	–	33
Total operating income before interest payable	200	61	3	3	267
Revenue profit before tax	126	13	(1)	1	139
Capital profit before tax	261	131	(26)	30	396
Total return before tax	387	144	(27)	31	535
Net assets	2,405	848	84	58	3,395
Total assets	3,414	1,703	211	84	5,412

Geographical areas	United Kingdom 2003 £m	Continental Europe 2003 £m	US 2003 £m	Asia Pacific 2003 £m	Total 2003 £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	96	16	–	1	113
Dividend income from equity shares	89	17	–	–	106
Fees receivable	30	24	–	2	56
Other income	29	3	1	–	33
Total operating income before interest payable	244	60	1	3	308
Revenue profit before tax	186	(12)	(2)	–	172
Capital profit before tax	(586)	(377)	(140)	(15)	(1,118)
Total return before tax	(400)	(389)	(142)	(15)	(946)
Net assets	2,158	568	159	51	2,936
Total assets	3,360	1,348	198	93	4,999

2 Realised profits on disposal of investments

	2004 £m	2003 £m
Net proceeds	923	976
Opening valuation of investments disposed	(653)	(755)
Investments written off	(50)	(79)
Other	8	48
Realised profits on disposal	228	190
Represented by:		
Listed	21	8
Unlisted	207	182
	228	190

Other includes £4 million (2003: £50 million) in respect of subordinated liabilities no longer repayable, as explained in note 39.

3 Unrealised profits/(losses) on revaluation of investments

	2004 £m	2003 £m
Listed	50	(169)
Unlisted	286	(990)
	336	(1,159)

4 Carried interest and investment performance plans

	2004 £m	2003 £m
Charge for investment performance plans	34	12
Carried interest	6	–
	40	12

As is normal in the private equity industry, the Group offers its investment executives the opportunity to participate in the returns from successful investments. The two principal methods of achieving this are the Group's investment performance plans ("IPP") and carried interest arrangements.

Under the IPP, payments are made on the basis of realised capital profits on investments pooled by team and by year. Payments are made if the realised profits and valuation of remaining investments within a pool indicate that a performance hurdle will be exceeded. Payments are accrued as the increase in asset value is recognised.

	2004 £m	2003 £m
Charge for IPP – realised	8	6
– unrealised	26	6
	34	12

Under the carried interest arrangements, participants purchase a carried interest in future investments within a pool before the investments are made. This entitles them to receive a proportion of the cash flows from those investments in excess of a performance hurdle.

The accounts show the change in value during the year of all outstanding carried interest held by participants in investments held at 31 March 2004.

	2004 £m	2003 £m
Carried interest – realised	–	–
– unrealised	6	–
	6	–

In the year to March 2004, participants purchased a carried interest in respect of all first investments to be made by the Group over the two year period to 31 March 2006.

5 Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments

	UK 2004 £m	Non-UK 2004 £m	Total 2004 £m
Interest receivable on loan investments – unlisted	60	24	84
Fixed rate dividends – unlisted	7	1	8
	67	25	92

	UK 2003 £m	Non-UK 2003 £m	Total 2003 £m
Interest receivable on loan investments – unlisted	79	17	96
Fixed rate dividends – unlisted	17	–	17
	96	17	113

Interest receivable of £28 million (2003: £41 million) has been received by way of loan notes and a corresponding amount has been included in additions to loan investments.

6 Other interest receivable and similar income

	2004 £m	2003 £m
Interest receivable on money market assets, treasury debt securities and similar income	33	34

7 Interest payable

Interest payable has been allocated as follows:

	2004 £m	2003 £m
Revenue reserve	51	57
Capital reserve	42	53
	93	110

Interest payable was allocated so that interest payable less other interest receivable and similar income was allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital.

8 Dividend income from equity shares

	UK 2004 £m	Non-UK 2004 £m	Total 2004 £m
Listed	3	1	4
Unlisted	80	10	90
	83	11	94

	UK 2003 £m	Non-UK 2003 £m	Total 2003 £m
Listed	3	1	4
Unlisted	86	16	102
	89	17	106

9 Fees receivable

Fees have been accounted for as follows:

	2004 £m	2003 £m
Revenue reserve	43	46
Capital reserve – fees receivable	20	16
– deal related costs	(15)	(6)
	48	56

Fees receivable earned and deal related costs incurred as an intrinsic part of an intention to acquire or dispose of an investment, have been accounted for directly in the capital reserve.

10 Administrative expenses and depreciation

	2004 £m	2003 £m
Staff costs		
Wages and salaries	77	67
Social security costs	11	7
Other pension costs	15	15
	103	89
Other administrative expenses	55	57
Depreciation	5	7
Total administrative expenses	163	153
Total administrative expenses have been allocated as follows:		
Revenue reserve	72	64
Capital reserve	91	89
	163	153

The average monthly number of employees during the year was 833 (2003: 922). At 31 March 2004, the number of employees was 750 (2003: 858). In addition to the staff costs shown above, the amounts shown in note 4 have been charged against capital profits in respect of carried interest and investment performance plans.

Costs associated with making and managing investments were allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital.

11 Directors' emoluments

Details of Directors' emoluments are contained within the Remuneration report on pages 38 to 45.

12 Pension arrangements

The Group operates a number of pension schemes. The main scheme, which covers most employees, is the 3i Group Pension Plan ("the Plan"). The cost of the Plan recognised in the accounts was £10 million (2003: £12 million) and other plans was £5 million (2003: £3 million). This is a funded defined benefit scheme, the assets of which are independent of the Group's finances and are administered by Trustees. The Group accounts for pension arrangements in accordance with Statement of Standard Accounting Practice 24 – Accounting for Pension Costs (SSAP 24). The Plan is the subject of an actuarial valuation every three years. The last full valuation was made at 30 June 2001 on the projected unit method. At that date, the market value of the assets was £246 million, and the actuarial value of the assets (taken to be market value) was sufficient to cover 92% of the value of benefits that had accrued to members after allowing for assumed increases in earnings and benefits. The principal assumptions were as follows:

	Accrued liabilities	Future contributions
Price inflation	2.7%	2.7%
Rate of return pre-retirement	8.2%	8.6%
Rate of return post-retirement	5.2%	5.5%
Salary increases (excluding promotion)	5.2%	5.2%
Pension increases	3.0%	3.0%

The deficit at 30 June 2001 has been spread over a 10 year period, the average remaining service lives of the existing employees, using the percentage of payroll method.

The net cost and contributions in respect of the main scheme comprises:

	2004 £m	2003 £m
Regular cost	10	11
Variation from regular cost (including interest)	–	1
Net cost for the year	10	12
Contributions – cash	24	25

As a result of adverse economic and market conditions since 30 June 2001, the market value of the Plan's assets at 31 March 2004 would have been sufficient to cover 77% of the value of benefits that had accrued to members after allowing for assumed increases in earnings and benefits. If these conditions persist until the next triennial actuarial valuation of the Plan at 30 June 2004, the SSAP 24 based net cost will increase for 2005. During the year, the Board of the Company agreed to provide a guarantee to the Trustees of the Plan in respect of the liabilities to the Plan of 3i plc, the principal employer under the Plan. This guarantee had not been executed by 31 March 2004.

Following advice from independent actuaries, no employer's contributions were made during the period from 1 July 1985 to 1 April 2002 except that during the year to 31 March 2002 two payments were made into the Plan totalling £22 million. Employer's contributions to the Plan recommenced on 1 April 2002. An additional £13 million was paid in March 2003. For the year to 31 March 2003, standard contributions were agreed to be 31.5% of members' pensionable salaries. An additional £13 million was also paid in October 2003. An amount of £27 million (2003: £13 million) included in prepayments represents the cumulative difference between the net pension cost and contributions made.

New employees joining 3i and the Plan after 1 September 2002 are required to contribute 5% of their monthly pensionable salaries. Under its rules, the Plan was non contributory for employees, joining prior to 1 September 2002, from 1 April 1978 to 31 December 2002. From 1 January 2003, the rules of the Plan were changed and employees who joined the Plan prior to 1 September 2002 were required to contribute 1% of monthly pensionable salary, currently this will increase by 1% each year to a target of 5% of pensionable salary. After a review of the discretionary early retirement arrangements of the Plan, the employer's standard contribution rate changed from 1 April 2003 to 29.2%.

Mr R W Perry and Mr O H J Stocken are Directors of 3i Group plc and were also throughout the year Directors of Gardens Pension Trustees Limited, one of two Corporate Trustees of the 3i Group Pension Plan.

Financial Reporting Standard 17 – Retirement Benefits ("FRS17") changes the basis of accounting for pensions and other post-retirement benefits. Under the transitional arrangements for the introduction of FRS17, certain additional disclosures are required and these are given below.

12 Pension arrangements continued

The actuarial valuation at 30 June 2001 was updated to 31 March 2003 and 31 March 2004 by an independent qualified actuary in accordance with FRS17. The Plan's liabilities have been measured using the projected unit method. The valuation for FRS17 purposes is based on the membership details and demographic assumptions used in the most recent actuarial valuation. The Plan assets have been updated to market value as at 31 March 2004.

The key FRS17 assumptions used for the Plan were:

	2004	2003	2002
Price inflation	2.9%	2.5%	2.5%
Salary increases (excluding promotion)	4.4%	4.0%	5.0%
Pension increases	3.0%	3.0%	3.0%
Discount rate	5.5%	5.6%	6.1%

The assets of the Plan and their expected return were:

	Long-term rate of return expected at 31 March 2004	2004 Value £m	Long-term rate of return expected at 31 March 2003	2003 Value £m	Long-term rate of return expected at 31 March 2002	2002 Value £m
Equities	7.9%	187	7.5%	144	8.5%	212
Gilts	4.7%	62	4.5%	42	–	–
Other	4.6%	23	3.8%	27	5.2%	39
		272		213		251
Present value of Plan liabilities		(355)		(303)		(265)
Net pension liability		(83)		(90)		(14)

A deferred tax asset has not been recognised on this deficit because its utilisation is considered unlikely in the foreseeable future.

If FRS17 had been adopted in the financial statements, the following amounts would have been recognised in the total return:

	2004 £m	2003 £m
Revenue account		
Amount charged to administrative expenses		
Current service cost	(9)	(11)
Vested past service	(1)	(1)
Total administrative expenses	(10)	(12)
Amount charged to other finance costs		
Expected return on Plan assets	14	20
Interest on Plan liabilities	(17)	(16)
Net return	(3)	4
Revenue return	(13)	(8)
Capital account		
Difference between the expected and actual return on Plan assets	30	(76)
Experience (losses) on Plan liabilities	(12)	(5)
Changes in assumptions underlying the present value of Plan liabilities	(22)	(12)
Actuarial (losses) recognised in total return	(4)	(93)
Total return	(17)	(101)

The movement in pension deficit is as follows:

	2004 £m	2003 £m
Opening balance	(90)	(14)
Current service cost	(9)	(11)
Past service cost	(1)	(1)
Contributions	24	25
Other financial interest	(3)	4
Actuarial (losses) recognised in capital reserve	(4)	(93)
Movement in the year	7	(76)
Closing balance	(83)	(90)

12 Pension arrangements continued

History of experience gains and losses:

	2004	2003
Difference between the expected and actual return on Plan assets:		
Amount	£30m	£(76)m
Percentage of Plan assets (closing)	11%	36%
Experience gains and losses on Plan liabilities:		
Amount	£(12)m	£(5)m
Percentage of present value of Plan liabilities (closing)	3%	2%
Total amount recognised in Statement of total return:		
Amount	£(4)m	£(93)m
Percentage of present value of Plan liabilities (closing)	1%	31%

If FRS17 had been fully implemented net assets would have reduced by:

	2004 £m	2003 £m
FRS17 deficit	83	90
SSAP 24 prepayment	27	13
	110	103

13 Cost of changes to organisational structure

There was no provision made for organisational changes of the Group and staff reductions during the year. A provision of £10 million was made during 2003. This was allocated between the revenue reserve £5 million and the capital reserve £5 million based on the underlying nature of the cost.

14 Profit on ordinary activities before tax

This is arrived at after charging:

	2004 £m	2003 £m
Depreciation on owned assets	4	6
Depreciation on hire purchase assets	1	1

Auditors' remuneration

The auditors received fees for the statutory audit of the Group of £0.8 million (2003: £0.7 million), which included £0.2 million (2003: £0.2 million) for the Company. Total fees paid by the Group to Ernst & Young LLP are analysed below:

	2004 £m	2003 £m
Audit services		
Statutory audit fee – UK	0.5	0.5
– overseas	0.3	0.2
Audit related regulatory reporting – UK	0.1	0.1
Total audit services	0.9	0.8
Further assurance services	0.1	0.1
Tax services (compliance and advisory services)	0.2	0.2
Other services:		
Investment due diligence	0.4	0.1
Secondment to the Group's investment business	0.1	–
Repatriation and HR advice	–	0.2
Total other fees	0.8	0.6

Audit services are services required to be undertaken by the auditors which include the statutory and interim audits, regulatory returns and formalities relating to borrowing, shareholder and other circulars. This work is normally allocated to the auditors.

14 Profit on ordinary activities before tax continued

Tax and further assurance services are services which it is most efficient for the auditors to provide and is allocated to them subject to consideration of any impact on their independence.

Other services are 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. Other services in this category include due diligence within the investment process. If this were to be provided by the auditors, the specific team engaged would be independent of the audit.

In addition to the above the Group has identified £2.2 million of investment related fees paid to Ernst & Young LLP by investee companies, where the Group's investee companies and investment teams have appointed the service provider. It is estimated that Ernst & Young LLP receive less than 10% of the total investment related fees paid to the four largest accounting firms.

15 Tax

The tax charge/(credit) for the year comprises:

	Revenue 2004 £m	Capital 2004 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	26	(26)
UK corporation tax at 30%	3	–
Less relief for foreign tax	(3)	–
Foreign tax	3	–
Adjustment in respect of previous periods	–	–
Current tax charge/(credit) for the year	29	(26)
Deferred tax	–	1
Charge/(credit) for the year	29	(25)

	Revenue 2003 £m	Capital 2003 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	30	(30)
UK corporation tax at 30%	2	–
Less relief for foreign tax	(2)	–
Foreign tax	3	(1)
Adjustment in respect of previous periods	(1)	–
Current tax charge/(credit) for the year	32	(31)
Deferred tax	–	(4)
Charge/(credit) for the year	32	(35)

The charge/(credit) for the year all relates to the Company and its subsidiary undertakings.

Factors affecting the charge for the year The tax charge for the year differs from the standard rate of corporation tax in the UK, currently 30% (2003: 30%), and the differences are explained below:

	Revenue 2004 £m	Capital 2004 £m
Return before tax	139	396
Return before tax multiplied by standard UK corporation tax rate of 30%	42	119
Effects of:		
Expenses not deductible for tax purposes	–	–
Short-term timing differences	–	–
Current period unutilised tax losses	4	–
Non-taxable UK dividend income	(28)	–
Repatriated profits of overseas group undertakings	11	–
Foreign tax	3	–
Foreign tax credits available for double tax relief	(3)	–
Adjustments in respect of previous periods	–	–
Capital (profits)/losses not (chargeable)/allowable because of Investment Trust status	–	(145)
Current tax charge/(credit) for the year	29	(26)

15 Tax continued

	Revenue 2003 £m	Capital 2003 £m
Return before tax	172	(1,118)
Return before tax multiplied by standard UK corporation tax rate of 30%	52	(335)
Effects of:		
Expenses not deductible for tax purposes	1	–
Short-term timing differences	1	–
Current period unutilised tax losses	7	–
Non-taxable UK dividend income	(29)	–
Repatriated profits of overseas group undertakings	–	–
Foreign tax	3	–
Foreign tax credits available for double tax relief	(2)	–
Adjustments in respect of previous periods	(1)	–
Capital (profits)/losses not (chargeable)/allowable because of Investment Trust status	–	304
Current tax charge/(credit) for the year	32	(31)

The Group's investments and capital return are primarily included in the Group's ultimate parent company, the affairs of which are directed so as to allow it to be approved as an investment trust. As investment trusts are exempt from capital gains tax, the Group's capital return is largely not taxable.

Factors that may affect future tax charges The Group currently has and expects to continue to generate surplus tax losses. A deferred tax asset in respect of these surplus losses is not recognised because their utilisation is considered unlikely in the foreseeable future.

16 Profit after tax

The amount dealt with in the revenue account of the Company is £79 million (2003: £101 million).

17 Dividends

	2004 £m	2003 £m
Interim paid 5.1p per share (2003: 4.9p per share paid)	31	29
Final proposed 8.9p per share (2003: 8.6p per share paid)	53	52
	84	81

18 Earnings and net assets per share

		2004	2003
Revenue profit for the year		£110m	£140m
Weighted average number of shares	– basic	612m	610m
	– diluted	642m	611m
Earnings per share	– basic	18.0p	22.9p
	– diluted	17.2p	22.9p
Net assets		£3,395m	£2,936m
Number of shares	– basic	613m	611m
	– diluted	614m	611m
Net asset value per share	– basic	554p	481p
	– diluted	553p	480p

The difference between the basic and diluted weighted average number of shares used in the calculation of earnings per share and total return per share is the dilutive effect of the convertible bonds and share options.

The difference between the basic and diluted number of shares used in the calculation of net asset value per share is the dilutive effect of share options.

19 Related undertakings

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 to the Companies Act 1985 is such that compliance would result in information of excessive length being given.

In accordance with section 231 of that Act, information regarding principal subsidiary undertakings and joint ventures is set out on page 68.
Full information will be annexed to the Company's next annual return.

As permitted by Financial Reporting Standard 8 – Related Party Disclosures – transactions or balances with Group entities that have been eliminated on consolidation are not reported.

20 Loans and advances to banks

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Repayable on demand	94	99	50	34
Maturity of other loans and advances to banks				
Repayable:				
within three months	325	313	270	282
between three months and one year	115	115	115	115
	534	527	435	431

21 Debt securities held for treasury purposes

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Repayable within one year	284	283	284	283

22 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Debt securities and fixed income shares				
Loan investments	1,312	1,336	1,217	1,258
Fixed income shares	150	228	148	224
	1,462	1,564	1,365	1,482
Equity shares				
Listed	225	187	219	180
Unlisted	2,639	2,188	2,440	1,999
	2,864	2,375	2,659	2,179
Total	4,326	3,939	4,024	3,661
Maturity of debt securities and fixed income shares				
Repayable within one year	93	101	89	95
Repayable after more than one year	1,369	1,463	1,276	1,387
	1,462	1,564	1,365	1,482

22 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares continued

	The Group Equity shares 2004 £m	The Group Loan investments 2004 £m	The Group Fixed income shares 2004 £m	The Group Total 2004 £m
Opening balances				
Cost	2,751	1,563	355	4,669
Unrealised appreciation	(376)	(227)	(127)	(730)
	2,375	1,336	228	3,939
Additions at cost	356	401	27	784
Disposals, repayments and write-offs	(497)	(325)	(92)	(914)
Transfers	69	(80)	11	–
Unrealised appreciation	661	11	(20)	652
Currency translation	(100)	(31)	(4)	(135)
31 March 2004	2,864	1,312	150	4,326
Represented by:				
Cost	2,579	1,528	297	4,404
Unrealised appreciation	285	(216)	(147)	(78)
	2,864	1,312	150	4,326
Listed				
UK	156	–	–	156
Non-UK	69	–	2	71
	225	–	2	227
Unlisted				
UK	1,387	831	114	2,332
Non-UK	1,252	481	34	1,767
	2,639	1,312	148	4,099

	The Company Equity shares 2004 £m	The Company Loan investments 2004 £m	The Company Fixed income shares 2004 £m	The Company Total 2004 £m
Opening balances				
Cost	2,477	1,466	350	4,293
Unrealised appreciation	(298)	(208)	(126)	(632)
	2,179	1,258	224	3,661
Additions at cost	333	354	27	714
Disposals, repayments and write-offs	(430)	(304)	(89)	(823)
Transfers	68	(78)	10	–
Transfers from other Group companies	3	2	–	5
Unrealised appreciation	596	13	(20)	589
Currency translation	(90)	(28)	(4)	(122)
31 March 2004	2,659	1,217	148	4,024
Represented by:				
Cost	2,361	1,412	294	4,067
Unrealised appreciation	298	(195)	(146)	(43)
	2,659	1,217	148	4,024
Listed				
UK	156	–	–	156
Non-UK	63	–	2	65
	219	–	2	221
Unlisted				
UK	1,386	828	113	2,327
Non-UK	1,054	389	33	1,476
	2,440	1,217	146	3,803

22 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares continued

Group companies have invested in or made commitments to 15 limited partnerships. These investments represented the following proportions of the total commitments of all investors in these partnerships:

Partnership	Proportion of total commitments
3i Europe Investment Partners No. 1	0.92%
3i Europe Investment Partners No. 2	<0.01%
3i 94 LMBO Plan	<0.01%
3i UK Investment Partners	0.23%
3i Smaller MBO Plan	<0.01%
3i NPM Smaller MBO Plan	<0.01%
3i UKIP II LP	<0.01%
3i Europartners II LP	<0.01%
3i Parallel Ventures LP	<0.01%
3i Europartners IIIA LP	<0.01%
3i Europartners IIIB LP	<0.01%
3i Asia Pacific Technology LP	<0.01%
3i Europartners IVa LP	<0.01%
3i Europartners IVb LP	<0.01%
3i Europartners IVd LP	<0.01%

The proportion of total commitments shown above are those at both 31 March 2004 and 31 March 2003 except for the commitments made to 3i Europartners IVa LP, 3i Europartners IVb LP and 3i Europartners IVd LP, which were made during the year. Although Group companies act as the general partner and the manager of each partnership, since their rights as such are held in a fiduciary capacity, the investments are included as equity share investments. Unrealised appreciation on unlisted equity investments includes £5 million (2003: £6 million) which represents the net carried interest that would be received by the Group if all investments held by the limited partnerships, which have already achieved their necessary hurdle, were realised at their valuation on the balance sheet date. The Group received fee income of £31 million (2003: £34 million) and distributions of £2 million (2003: £7 million) from this activity.

23 Interests in joint ventures

	The Group 2004 £m	The Company 2004 £m
Opening balances		
Cost	115	1
Share of post acquisition retained surpluses less losses	(7)	–
Unrealised appreciation	(85)	–
	23	1
Additions	25	25
Repayment	(25)	–
Share of net surplus less losses	(2)	–
Unrealised appreciation	10	(16)
Currency translation	(4)	–
31 March 2004	27	10
Represented by:		
Cost	111	26
Share of post acquisition retained surpluses less losses	(9)	–
Unrealised appreciation	(75)	(16)
	27	10

The additions to joint ventures were investment in the equity of Atle Industri AB by the Company. The repayments were a repayment of loan from Woodrose AB.

The gross assets of the joint ventures are debt securities and other fixed income securities held as financial fixed assets. The gross liabilities are other liabilities.

Details of the Group's interest in its principal joint ventures, which are unlisted and outside the UK, is given on page 68.

24 Shares in Group undertakings

	The Company 2004 £m
Opening balance	66
Additions	14
Disposals	(24)
Capital reduction of Group undertaking	(7)
Currency translation	(2)
Closing balance	47

Details of the principal subsidiary undertakings are given on page 68.

25 Tangible fixed assets

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Investment properties	5	5	–	–
Properties in use by the Group	26	27	25	26
Other fixed assets in use by the Group	9	13	–	–
	40	45	25	26

Properties	The Group Investment properties 2004 £m	The Company Investment properties 2004 £m	The Group Properties in use by the Group 2004 £m	The Company Properties in use by the Group 2004 £m
Opening balances				
Cost	5	–	22	21
Unrealised appreciation	–	–	5	5
	5	–	27	26
Unrealised appreciation	–	–	(1)	(1)
	5	–	26	25
Represented by:				
Cost	5	–	22	21
Unrealised appreciation	–	–	4	4
	5	–	26	25
Freehold	5	–	9	8
Leasehold – 50 years and over	–	–	17	17
	5	–	26	25

25 Tangible fixed assets continued

Other fixed assets in use by the Group	The Group Office equipment 2004 £m	The Group Hire purchase motor vehicles 2004 £m	The Group Total 2004 £m
Opening cost	56	5	61
Additions	–	1	1
Disposals	–	(3)	(3)
Cost at 31 March 2004	56	3	59
Opening depreciation	46	2	48
Charge for year	4	1	5
Disposals	(1)	(2)	(3)
Depreciation at 31 March 2004	49	1	50
Book amount at 31 March 2004	7	2	9
Book amount at 31 March 2003	10	3	13

Obligations under motor vehicle hire purchase contracts	The Group 2004 £m	The Group 2003 £m
Amounts payable:		
within one year	–	1
between two and five years	2	1
	2	2
Finance charge allocated to future periods	–	–
	2	2

26 Own shares

	2004 £m
Opening cost	44
Additions	20
Disposals	(9)
31 March 2004	55

Investment in own shares consists of shares in 3i Group plc held by The 3i Group Employee Trust to meet its obligations under the Group's share schemes. The market value of these shares at 31 March 2004 was £62 million (2003: £34 million). The Trustee has waived its right to receive dividends on the shares held by the Trust. The purchase of the shares is funded by an interest free loan from 3i Group plc.

27 Other assets

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Tax recoverable	3	4	–	1
Other debtors	77	60	7	9
Amounts due from Group undertakings			76	62
	80	64	83	72

28 Prepayments and accrued income

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Interest receivable	65	71	44	48
Certificates of tax deposit	–	2	–	2
	65	73	44	50

29 Deposits by banks

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
With agreed maturity dates or periods of notice	215	423	113	248
Maturity of deposits with agreed maturity dates or periods of notice				
Repayable:				
within three months	41	66	41	66
between three months and one year	–	3	–	3
between two years and five years	174	354	72	179
	215	423	113	248

30 Debt securities in issue

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Bonds and notes	1,008	1,183	805	830
Other debt securities in issue	120	167	120	167
	1,128	1,350	925	997

Bonds and notes	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Fixed rate (guaranteed)				
3i International BV 7.75% – matured 2003	–	150		
Total fixed rate	–	150	–	–
Variable rate				
Unsecured loan notes				
Various maturities – 2007-2010	2	2	1	1
Total variable rate	2	2	1	1

Notes issued under the £2,000 million Note Issuance Programme	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Fixed rate				
Public issues				
3i Group plc 6.875% – matures 2007	200	200	200	200
3i Group plc 6.875% – matures 2023	200	200	200	200
3i Group plc 5.750% – matures 2032	400	400	400	400
Private placings	2	22	–	20
Total fixed rate	802	822	800	820
Variable rate				
Public issues				
3i Holdings plc – matures 2007	200	200		
Private placings	4	9	4	9
Total variable rate	204	209	4	9
Total bonds and notes	1,008	1,183	805	830

30 Debt securities in issue continued

Maturity of bonds and notes	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Repayable:				
on demand or within one year	2	175	–	25
between one year and two years	4	2	4	–
between two years and five years	401	405	201	205
after five years	601	601	600	600
	1,008	1,183	805	830

Other debt securities in issue	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
European Investment Bank	–	22	–	22
Other	120	145	120	145
	120	167	120	167
Maturity of other debt securities in issue				
Repayable:				
within three months	106	115	106	115
between three months and one year	11	42	11	42
between one year and two years	1	5	1	5
between two years and five years	2	5	2	5
	120	167	120	167

The Group had the following committed multi-currency facilities at 31 March 2004:

Negotiated	Facility	Drawn	Drawn margin (over LIBOR)	Undrawn commitment fee
June 2001 (matures 21 June 2006)	£360m	£144m	0.1750%	0.0875%
November 2003 (matures 29 October 2008)	€595m	£30m	0.2000%	0.1000%

The drawn margin on the €595 million facility increases to 0.225% if the drawn amount is between 33% and 66% of the facility, and to 0.25% if the drawn amount is greater than 66% of the facility.

31 Convertible bonds

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Repayable between two years and five years	367	–	367	–

On 1 August 2003, 3i Group plc issued €550 million 1.375% Convertible Bonds due 2008. They are convertible at the option of the Bondholder to ordinary shares at any time from 11 September 2003 to 25 July 2008. The number of shares to be issued on conversion will be determined by dividing the principal of the bond by the conversion price in effect on the conversion date. The initial conversion price is £8.416757. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008.

If certain conditions are met, the Issuer may redeem all, but not some only, of the Bonds for the time being outstanding at their principal amount. The Issuer may make a payment in cash as an alternative to issuing shares upon either conversion or redemption.

Interest is payable on the bonds in equal semi annual instalments in arrears on 12 January and 12 July each year.

The fair value of the convertible bonds at 31 March 2004 was £374 million.

32 Interest rate sensitivity gap analysis

Interest rate risk emanates from the Group's loan investments and the Group's funding. The Group's policy is that fixed rate lending is matched with fixed rate borrowings and the interest rate resetting profile of variable rate lending is matched with that of variable rate borrowings through gearing the portfolio. Financial instruments including interest rate swaps are used as part of this matching process. Equity investments, which are mainly funded by shareholders' funds but also partially by borrowings in similar currencies, give rise to an interest rate sensitivity gap as a result of the equity investments being non-interest bearing and having no fixed maturity date. The interest rate sensitivity gap at 31 March 2004 was:

Assets	Not more than three months 2004 £m	More than three months but not more than six months 2004 £m	More than six months but not more than one year 2004 £m	More than one year but not more than five years 2004 £m	More than five years 2004 £m	Non-interest bearing 2004 £m	Total 2004 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	419	65	50	–	–	–	534
Debt securities held for treasury purposes	244	40	–	–	–	–	284
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	424	39	59	301	489	–	1,312
Fixed income shares	–	–	–	–	–	150	150
Equity shares	–	–	–	–	–	2,864	2,864
Other assets	–	–	–	–	–	267	267
	1,087	144	109	301	490	3,281	5,412
Liabilities							
Deposits by banks	215	–	–	–	–	–	215
Debt securities in issue	(174)	(24)	21	388	917	–	1,128
Convertible bonds	–	–	–	367	–	–	367
Other liabilities	–	–	–	–	–	262	262
Subordinated liabilities	–	–	–	–	45	–	45
Shareholders' funds	–	–	–	–	–	3,395	3,395
	41	(24)	21	755	962	3,657	5,412
Interest rate sensitivity gap	1,046	168	88	(454)	(472)	(376)	–
Cumulative gap	1,046	1,214	1,302	848	376	–	–

Assets	Not more than three months 2003 £m	More than three months but not more than six months 2003 £m	More than six months but not more than one year 2003 £m	More than one year but not more than five years 2003 £m	More than five years 2003 £m	Non-interest bearing 2003 £m	Total 2003 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	412	105	10	–	–	–	527
Debt securities held for treasury purposes	228	55	–	–	–	–	283
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	438	67	65	328	438	–	1,336
Fixed income shares	–	–	–	–	–	228	228
Equity shares	–	–	–	–	–	2,375	2,375
Other assets	–	–	–	–	–	249	249
	1,078	227	75	328	439	2,852	4,999
Liabilities							
Deposits by banks	316	104	3	–	–	–	423
Debt securities in issue	(44)	126	(34)	302	1,000	–	1,350
Convertible bonds	–	–	–	–	–	–	–
Other liabilities	–	–	–	–	–	239	239
Subordinated liabilities	–	–	–	–	51	–	51
Shareholders' funds	–	–	–	–	–	2,936	2,936
	272	230	(31)	302	1,051	3,175	4,999
Interest rate sensitivity gap	806	(3)	106	26	(612)	(323)	–
Cumulative gap	806	803	909	935	323	–	–

33 Currency exposures

Currency rate risk emanates from the Group's international operations. The policy regarding currency risk is set out in the Operating and financial review on page 23. Currency swaps are used as part of applying that policy.

The Group's structural currency exposures at 31 March 2004 were as follows:

Currency	Variable rate loan investments 2004 £m	Fixed rate loan investments 2004 £m	Other investment assets 2004 £m	Other net assets before borrowings 2004 £m	Short-term variable rate borrowings 2004 £m	Other variable rate borrowings 2004 £m	Fixed rate borrowings 2004 £m	Net assets 2004 £m
Sterling	341	429	1,622	721	60	223	(1,132)	2,264
Euro	102	256	862	28	72	60	(595)	785
US dollar	32	47	268	7	(120)	–	–	234
Swiss franc	–	41	68	3	(21)	–	–	91
Swedish krona	1	52	185	26	(133)	(144)	–	(13)
Other	–	11	41	7	(12)	–	(13)	34
Subtotal	135	407	1,424	71	(214)	(84)	(608)	1,131
Total	476	836	3,046	792	(154)	139	(1,740)	3,395

Currency	Variable rate loan investments 2003 £m	Fixed rate loan investments 2003 £m	Other investment assets 2003 £m	Other net assets before borrowings 2003 £m	Short-term variable rate borrowings 2003 £m	Other variable rate borrowings 2003 £m	Fixed rate borrowings 2003 £m	Net assets 2003 £m
Sterling	397	496	1,450	688	14	200	(1,244)	2,001
Euro	91	181	656	69	(113)	42	(259)	667
US dollar	37	62	221	10	(32)	–	–	298
Swiss franc	–	38	26	2	(25)	–	–	41
Swedish krona	1	20	217	20	–	(354)	–	(96)
Other	–	13	61	4	(39)	–	(14)	25
Subtotal	129	314	1,181	105	(209)	(312)	(273)	935
Total	526	810	2,631	793	(195)	(112)	(1,517)	2,936

34 Liquidity

The Group's liquidity policy is based on a maturity ladder approach with all mismatch limits of cash flows between cumulative assets and cumulative liabilities over various time periods approved by the Board. The limits for shorter periods are also agreed with the Financial Services Authority.

35 Fair value of financial assets and financial liabilities

The Group does not have a trading book and it holds all assets and liabilities in a non-trading book.

Financial assets Quoted and unquoted equity investments and quoted fixed income shares are included in the consolidated balance sheet at market value or Directors' valuation which equates to fair value. Unquoted fixed income shares and loan investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. No liquid and active market exists, either for the unquoted fixed income share or loan investments or their component parts. The fair value of other financial assets equates to their book value in the consolidated balance sheet.

Financial liabilities The Group's borrowings finance loan investments, fixed income shares and equity shares. As stated above, these unquoted loan and fixed income share investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. These investments are not shown at an estimated market value as no active and liquid market exists for them. The Report and accounts therefore do not include any recognition of the effect of their yield being above or below current market yields. However, Financial Reporting Standard 13 – Derivatives and other financial instruments: disclosures – requires disclosure of the fair value of those elements of the Group's borrowings that are listed even though, in some cases, the market for those borrowings is not particularly active. The remainder of the Group's borrowings, which are unlisted, do not have a liquid or active market.

The fair value of the listed element of financial liabilities at 31 March 2004 was £1,424 million (2003: £1,214 million), which compares with a book amount of £1,367 million (2003: £1,205 million). These borrowings are used to fund investments which, in general, yield a net margin to the Group and which would therefore have a higher fair value than the fair value of the borrowing. The fair value of other financial liabilities equates to their book value in the consolidated balance sheet.

Derivatives The Group does not trade in derivatives. The derivatives held hedge specific exposures and have maturities designed to match the exposures they are hedging. It is the intention to hold both the financial instruments giving rise to the exposure and the derivative hedging them until maturity and therefore no net gain or loss is expected to be realised.

The book value of derivatives represents net interest receivable/(payable) on such instruments at the balance sheet date. The fair value represents the replacement cost of the instruments at the balance sheet date. No unrealised gains or losses are included in the balance sheet. The amount of unrecognised gains or losses at the balance sheet date equates to the difference between fair value and book value.

35 Fair value of financial assets and financial liabilities continued

The fair values and book values at 31 March 2004 of the swaps were:

	Fair value 2004 £m	Fair value 2003 £m	Book value 2004 £m	Book value 2003 £m
Interest rate swaps	(19)	(24)	1	6
Currency swaps	(8)	(21)	–	2
	(27)	(45)	1	8

All swaps held at 31 March 2004 mature before 31 March 2041.

The principal outstanding on currency swap agreements and notional principal outstanding on interest rate swap agreements were:

	2004 £m	2003 £m
Fixed rate to variable rate	507	688
Variable rate to fixed rate	1,032	1,193
Variable rate to variable rate	170	170
Fixed rate to fixed rate	70	–
Included in the above are currency swaps amounting to	109	164

All financial instruments are unsecured. However, the Group does not expect non-performance by the counterparties, whose credit ratings are reviewed regularly.

36 Other liabilities

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Obligations under hire purchase contracts	2	2	–	–
Proposed dividend	53	52	53	52
Taxation payable	2	2	–	–
Amounts due to Group undertakings			203	389
	57	56	256	441

The amounts due to Group undertakings include £141 million (2003: £338 million) due after more than one year.

37 Accruals and deferred income

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Interest payable	33	43	25	26
Other accruals	166	130	51	21
	199	173	76	47

38 Provisions for liabilities and charges

	Property 2004 £m	Cost of organisational changes 2004 £m	Deferred tax 2004 £m	Total 2004 £m
Opening balance	–	10	–	10
Charge for year	2	–	1	3
Utilised in year	–	(7)	–	(7)
Movement for the year	2	(7)	1	(4)
31 March 2004	2	3	1	6

The provision for the cost of organisational changes relates to organisational changes and staff reductions in the two years to 31 March 2003.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs have been provided for and arise over the period of the lease.

38 Provisions for liabilities and charges continued

Deferred tax

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Unrealised appreciation less expected losses	1	–	–	–

The Group has generated surplus tax losses and expects to continue to do so in the future. A deferred tax asset in respect of these surplus losses has not been recognised because their utilisation is considered unlikely in the foreseeable future.

39 Subordinated liabilities

Subordinated liabilities comprise limited recourse funding from Kreditanstalt für Wiederaufbau (“KfW”), a German federal bank. This funding, which individually finances investment assets, is at various fixed rates of interest and maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual group undertakings to which these funds have been advanced and become non-repayable as assets fail. The carrying values of the non-recourse funding are adjusted to reflect the amounts expected to be payable when assets are failing.

As a method of settling this non-recourse funding, 3i Group plc agreed to purchase from KfW €72 million (£50 million) owed by Technologieholding Fonds VC GmbH and Technologieholding Fonds NBL GmbH for a consideration of €9 million (£6 million). This resulted in a realised capital profit in the year to 31 March 2003 of £39 million.

40 Called up share capital

	The Company 2004 Number	The Company 2004 £m
Authorised		
Ordinary shares of 50p each	820,000,000	410
Unclassified shares of 10p each	1,000,000	–
Issued, called up and fully paid Ordinary shares of 50p each		
Opening balance	610,918,253	305
Allotted on exercise of options under The 3i Executive Share Option Plan and The 3i Group 1994 Executive Share Option Plan at between 167p and 607p per share	2,013,050	2
Allotted on exercise of options under The 3i Group Sharesave Scheme at 467p per share	231,283	–
Allotted under The 3i Group Share Incentive Plan at between 448p and 660p per share	252,660	–
Allotted to vendors of SFK Finance Oy at 1210p per share	63,913	–
Movement for the year	2,560,906	2
31 March 2004	613,479,159	307

The market price of shares on the date on which the terms of the issues were fixed, was the price at which those shares were allotted, except in relation to those allotted under The 3i Group Sharesave Scheme where the market price of the shares was 583p.

40 Called up share capital continued

There were options outstanding to subscribe for the shares of the Company under The 3i Executive Share Option Plan, The 3i Group 1994 Executive Share Option Plan, The 3i Group Discretionary Share Plan and The 3i Group Sharesave Scheme as follows:

	Number of options	Period of exercise	Exercise price
31 March 2004	22,919,966	2004 to 2013	272p to 1375p
31 March 2003	22,280,605	2003 to 2012	168p to 1375p

The interests of the Directors (all of which are beneficial) in the ordinary shares of the Company are shown below:

	31 March 2004	31 March 2003	31 March 2004 Conditional*	31 March 2003 Conditional*
Baroness Hogg	12,355	12,355	–	–
Dr J R Forrest	1,500	1,500	–	–
C J M Morin-Postel	2,000	–	–	–
F D Rosenkranz	30,000	30,000	–	–
F G Steingraber	–	–	–	–
O H J Stocken	12,582	12,249	–	–
B P Larcombe	836,390	741,845	42,223	53,571
M M Gagen	91,055	91,055	9,049	24,050
R W Perry	63,625	22,436	16,206	22,176
M J Queen	173,832	130,135	27,145	32,220

* Represents conditional rights to acquire shares pursuant to deferred share bonus awards granted under the Management Equity Investment Plan, described on page 44.

The share interests shown above for each of Mr B P Larcombe, Mr R W Perry and Mr M J Queen include performance share awards which are subject to forfeiture and are detailed in the table on page 42.

In addition to the interests shown above, the executive Directors also have beneficial interests in the conditional rights to acquire shares pursuant to the performance linked awards granted under the Management Equity Investment Plan, which are detailed in the table on page 45. Each of the employees of the Group (including each of the executive Directors) is a potential beneficiary of The 3i Group Employee Trust and as such is interested (within the meaning of section 324 of the Companies Act 1985) in the 9,884,767 shares held by the trust at 31 March 2004. (Shares at 31 March 2003: 8,193,026.) This number of shares includes the shares over which Directors are mentioned above as having conditional rights to acquire under the Management Equity Investment Plan.

Details of Directors' share options under the Group's Executive Share Option Plans are shown in the Remuneration report on page 41.

Since 31 March 2004, there have been changes in the Directors' interests in shares. As at 4 May 2004, each of these Directors were beneficially interested in the following number of additional shares: Mr B P Larcombe (60), Mr R W Perry (60) and Mr M J Queen (60). In addition, as at that date, the number of shares held by The 3i Group Employee Trust was 9,879,752.

41 Reserves

	The Group Revenue 2004 £m	The Group Share premium 2004 £m	The Group Capital redemption 2004 £m	The Group Capital 2004 £m
Opening balances	341	349	1	1,940
Retained revenue for the year	26			
Realised profits on disposal of investments				228
Change in value of retained investments				336
Carried interest and investment performance plans				(40)
Fees receivable allocated to capital reserve				5
Interest payable allocated to capital reserve				(42)
Administrative expenses allocated to capital reserve				(91)
Tax on capital items				25
Increase in respect of shares issued		10		
Currency translation adjustment	24			(24)
Movement for the year	50	10	–	397
31 March 2004	391	359	1	2,337
The balance on the capital reserve represents:				
Realised profits				2,567
Unrealised appreciation				(230)
				2,337

	The Company Revenue 2004 £m	The Company Share premium 2004 £m	The Company Capital redemption 2004 £m	The Company Capital 2004 £m
Opening balances	438	349	1	1,762
Retained revenue for the year	(5)			
Realised profits on disposal of investments				179
Change in value of retained investments				289
Carried interest and investment performance plans				(40)
Interest payable allocated to capital reserve				(23)
Administrative expenses allocated to capital reserve				(56)
Increase in respect of shares issued		10		
Currency translation adjustment	30			(26)
Movement for the year	25	10	–	323
31 March 2004	463	359	1	2,085
The balance on the capital reserve represents:				
Realised profits				2,313
Unrealised appreciation				(228)
				2,085

41 Reserves continued

	The Company £m	Subsidiary undertakings £m	Joint ventures £m	Total £m
Retained profits				
31 March 2004				
Revenue and realised capital profits	2,776	191	(9)	2,958
31 March 2003				
Revenue and realised capital profits	2,879	161	(7)	3,033

The Company's Articles of Association prohibit the distribution of capital profits. As a result, the balance of its capital reserve, both realised and unrealised, is not distributable.

42 Unrealised appreciation

	2004 £m	2003 £m
Unrealised appreciation represents the difference between the original cost of investments and their carrying value, less charges		
Opening balance after tax	(752)	258
Value deficit/(surplus) realised	66	(38)
Value deficit written back on realisation	152	189
Change in value surplus	336	(1,159)
Carried interest	(32)	(6)
Tax credit	–	4
Movement for the year	522	(1,010)
Closing balance after tax	(230)	(752)

43 Reconciliation of revenue profit before tax to net cash flow from operating activities

	2004 £m	2003 £m
Revenue profit before tax	139	172
Depreciation of equipment and vehicles	5	7
Tax on investment income included within income from overseas companies	(1)	(1)
Interest received by way of loan notes	(28)	(41)
Movement in other assets associated with operating activities	(19)	(9)
Movement in prepayments and accrued income associated with operating activities	(1)	12
Movement in accruals and deferred income associated with operating activities	(1)	(15)
Movement in provisions for liabilities and charges	(5)	2
Reversal of losses of joint ventures less distribution received	1	1
Net cash inflow from operating activities	90	128

44 Analysis of changes in financing during the year

	Share capital and share premium 2004 £m	Deposits and debt securities repayable after more than one year 2004 £m	Share capital and share premium 2003 £m	Deposits and debt securities repayable after more than one year 2003 £m
Opening balance	654	1,372	647	1,548
Exchange movements	–	(16)	–	47
Cash inflows from financing	12	367	7	6
Cash outflows from financing	–	(168)	–	(45)
Non-cash movements	–	(5)	–	(184)
Movement for the year	12	178	7	(176)
Closing balance	666	1,550	654	1,372

45 Reconciliation of net cash flows to movement in net debt

	2004 £m	2003 £m
(Decrease)/increase in cash in the year	(2)	49
Cash flow from management of liquid resources	15	(15)
Cash flow from debt financing	33	143
Cash flow from subordinated liabilities	(1)	(7)
Change in net debt from cash flows	45	170
Foreign exchange movements	27	(46)
Non-cash changes	5	50
Movement in net debt in the year	77	174
Net debt at start of year	(1,015)	(1,189)
Net debt at end of year	(938)	(1,015)

46 Analysis of net debt

	1 April 2003 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	31 March 2004 £m
Cash and deposits repayable on demand	99	(2)	(3)	–	94
Treasury bills, other loans, advances and treasury debt securities	712	15	(2)	–	725
Deposits and debt securities repayable within one year	(401)	232	14	(5)	(160)
Deposits and debt securities repayable after one year	(1,372)	(199)	16	5	(1,550)
Subordinated liabilities repayable after one year	(51)	(1)	2	5	(45)
Finance leases	(2)	–	–	–	(2)
	(1,015)	45	27	5	(938)

47 Cash flows arising from management of liquid resources

	2004 £m	2003 £m
Other loans, advances and treasury debt securities	(15)	15
Net cash flow from management of liquid resources	(15)	15

48 Contingent liabilities

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	21	19	21	16

The Company has guaranteed the payment of principal, premium, if any, and interest on all the interest swap agreements of 3i Holdings plc. The Company has guaranteed the payment of principal, premium, if any, and interest on notes issued under the £2,000 million Note Issuance Programme by 3i Holdings plc and 3i International BV.

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £360 million and the €595 million revolving credit facilities. At 31 March 2004, 3i Holdings plc had drawn down £72 million (2003: £175 million) and £30 million (2003: £nil) respectively under these facilities.

At 31 March 2004, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

49 Commitments

	The Group 2004 £m	The Group 2003 £m	The Company 2004 £m	The Company 2003 £m
Share and loan investments	333	270	271	260

Principal subsidiary undertakings and joint ventures

Principal subsidiary undertakings at 31 March 2004

Name	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	1,000,000 shares of £1	Holding company	91 Waterloo Road London SE1 8XP
3i International Holdings	2,715,973 shares of £10	Holding company	
3i plc	10,000,000 shares of £1	Services	
3i Investments plc	10,000,000 shares of £1	Investment manager	
3i Japan GP Limited	250,000 shares of £1	General partner company	
3i Europe plc	500,000 shares of £1	Investment advisory services	
3i Nordic plc	500,000 shares of £1	Investment advisory services	
3i Asia Pacific plc	140,000 shares of £1	Investment advisory services	
Gardens Pension Trustees Limited	100 shares of £1	Pension fund trustee	
Ship Mortgage Finance Company public limited company	4,000,000 ordinary shares of £1 of which 3,000,000 are fully paid and 1,000,000 are partly paid (50p per share)	Advisory services	
3i Corporation (USA)	15,000 shares of common stock (no par value)	Investment manager	880 Winter Street Suite 330 Waltham MA 02451, USA
3i Deutschland Gesellschaft für Industriebeteiligungen mbH (Germany)	€25,564,594	Investment manager	Bockenheimer Landstrasse 55 60325 Frankfurt am Main, Germany
TH Technologieholding GmbH (Germany)	€25,565	Holding company	Rosental 3-4 80331, Munich Germany
3i Finland Oy (Finland)	500 shares of €340	Investment advisory services	Mikonkatu 25 00100, Helsinki Finland
3i Gestion SA (France)	200,000 shares of €16	Investment manager	168 Avenue Charles de Gaulle, 92200 Neuilly sur Seine France
3i Austria GmbH (Austria)	€50,000	Investment advisory services	Am Graben 19/4 1010, Vienna Austria

The list above comprises the principal subsidiary undertakings as at 31 March 2004 all of which were wholly owned. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

Each of the above subsidiary undertakings is included in the consolidated accounts of the Group.

As at 31 March 2004, the entire issued share capital of 3i Holdings plc was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings listed above was held by subsidiary undertakings of the Company, save that four shares in 3i Gestion SA were held by individuals associated with the Group.

Principal joint ventures at 31 March 2004
Incorporated in the country stated

Name	Issued and fully paid share capital	Percentage attributable to the Group %	Principal activity	Principal place of business and registered office	Group's share of results based on accounts to
Woodrose Invest AB (Sweden)	501,000 shares of SEK 100	50	Investment company	Box 7847 10399 Stockholm Sweden	31 March 2004
Atle Industri AB (Sweden)	5,000 shares of SEK 100	50	Investment company	Box 7847 10399 Stockholm Sweden	31 March 2004

As at 31 March 2004, the Company held 50% of the shares of Atle Industri AB and a subsidiary undertaking of the Company held, on behalf of the Company, 50% of the shares of Woodrose Invest AB.

Portfolio valuation methodology

A description of the methodology used to value the Group's portfolio is set out below in order to provide more detailed information than is included each year in the accounting policies for the valuation of the portfolio. The methodology complies in all material aspects with the guidelines of the British Venture Capital Association.

Basis of valuation Investments are reported at the Directors' estimate of Fair Value at the reporting date. Fair Value represents the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

General In estimating Fair Value, we seek to use a methodology that is appropriate in light of the nature, facts and circumstances of the investment and its materiality in the context of the total portfolio. Methodologies are applied consistently from period to period, except where a change would result in a better estimation of Fair Value. Given the uncertainties inherent in estimating Fair Value, a degree of caution is applied in exercising judgments and making the necessary estimates.

Quoted investments Quoted investments are valued at the closing mid-market price at the reporting date. This value is reduced by a Marketability Discount of between 0% and 25% dependent on the size of the Group's holding relative to normal trading volumes in that stock. Where there are formal restrictions on dealing in a particular security, a discount is applied, reducing over the term of the restriction. In the case of a six-month restriction, a discount of 20% would normally be used.

Unquoted investments Most unquoted investments are valued using one of the following methodologies:

– cost, less any required provision;

– earnings multiple;

– net assets;

– price of recent investment;

– expected sales proceeds.

New investments are valued at cost for the first 12 months and then until another methodology becomes more appropriate. This generally occurs when the first full set of accounts covering a period of at least six months since the date of investment becomes available.

Any investment in a company that has failed or is expected to fail within the next 12 months has the equity shares valued at nil and the fixed income shares and loan instruments valued at the lower of cost and net recoverable amount.

Generally, the process of estimating the Fair Value of an investment involves selecting one of the above methodologies and using that to derive an Enterprise Value for the investee company. The process is then to:

– deduct from the Enterprise Value all financial instruments ranking ahead of the Group;

– apply an appropriate Marketability Discount;

– apportion the remaining value over the other financial instruments including the Group's loans, fixed income shares and equity shares.

Where that apportionment indicates a shortfall against the loans or fixed income shares, then the Group considers whether, in estimating Fair Value, the shortfall should be applied, and if so, to what extent.

The Marketability Discount will generally be between 10%-30% with the level set to reflect the Group's influence over the exit prospects and timing for the investee company.

When using the earnings multiple methodology, earnings before interest and tax ("EBIT") are used, adjusted to a maintainable level and taxed at the standard corporation tax rate. Generally, the latest full year historical accounts are used unless there is an indication of a forecast downturn in earnings in the current or forecast year, in which case those earnings may be used. An appropriate multiple is applied to these earnings to derive an Enterprise Value. Normally the multiple will be the average taxed EBIT multiple for the relevant sector of the FTSE Global SmallCap Europe index, adjusted downwards by the Group to exclude loss-making companies.

Where a company reports an operating loss or the industry standard valuation methodology is by reference to the asset base, then the value may be estimated using the net assets methodology.

The price of recent investment methodology is used mainly for investments in venture capital companies and includes cost of the investment or valuation by reference to a subsequent financing round. Valuation increases above cost are only recognised if that round involved a new external investor and the company is meeting milestones set by the investors. The relevance of this methodology can be eroded over time due to changes in the technology, business or market which may indicate an impairment has occurred. In this case, carrying values will be reduced to reflect Fair Value.

Other factors that may be taken into account include:

– the expected effect of ratchets, options and liquidation preferences;

– any industry standard valuation methodology;

– offers received as part of a sale process which may either support the value derived from another methodology or be used as the valuation less a Marketability Discount of typically 10%.

For the Group's smaller investments, the valuation is determined by a more mechanistic approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are valued at the lower of cost and net recoverable amount. Approximately 15% by value of the Group's unquoted investments are valued using this methodology.

An analysis of the portfolio by valuation method is given in the portfolio analysis on page 73.

Ten largest investments

At 31 March 2004, the Directors' valuation of the ten largest investments was a total of £557 million. These investments cost £284 million.

Investment	First invested in	Cost[1] £m	Proportion of equity shares held	Directors' valuation[1] £m	Income in the year[2] £m	Net assets[3] £m	Earnings[3] £m
SR Technics Holding AG	2002						
Technical solutions provider for commercial aircraft fleets							
Equity shares		6	32.2%	45	–		
Loans		32		32	2		
		38		77	2	6	(2)
Fonecta Group Oy	2002						
Directory services							
Equity shares		4	33.5%	67	–		
Loans		–		–	2		
		4		67	2	15	2
Betapharm Arzneimittel GmbH[4]	2003						
Supplier of generic prescription drugs							
Equity shares		3	66.2%	3	–		
Loans		61		61	–		
		64		64	–		
Westminster Health Care Holdings Ltd	2002						
Care homes operator							
Equity shares		1	49.6%	20	2		
Loans		37		37	3		
		38		57	5	6	4
Travelex Holdings Ltd[5]	1998						
Foreign currency services							
Equity shares		–	19.6%	57	–		
		–		57	–	45	15
De Telefoongids Holding BV	2002						
Directory services							
Equity shares		8	22.1%	40	–		
Loans		15		15	1		
		23		55	1	30	(3)
ERM Holdings Ltd[6]	2001						
Environmental consultancy							
Equity shares		–	38.1%	15	–		
Loans		32		32	2		
		32		47	2	(4)	(2)
Pets at Home Group Ltd	1995						
Retailer of pets and pet supplies							
Equity shares		2	26.0%	21	–		
Loans		25		25	2		
		27		46	2	18	18
Williams Lea Group Ltd	1965						
Outsourced print services							
Equity shares		33	38.1%	45	–		
		33		45	–	39	4
Malmberg Investments BV	2001						
Educational publisher							
Equity shares		7	41.8%	24	–		
Loans		18		18	1		
		25		42	1	16	–

Notes

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

2 Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2004.

3 Net assets and earnings figures are taken from the most recent audited accounts of the investee business. The figures shown are the total earnings and net assets of each business. Because of the varying rights attaching to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held. Negative earnings and net assets are shown in brackets.

4 Betapharm Arzneimittel GmbH was incorporated in 2003 and no audited accounts are available, consequently no net assets or earnings are disclosed.

5 The cost of the equity held in Travelex Holdings Ltd is £121,000.

6 The cost of the equity held in ERM Holdings Ltd is £398,000.

Forty other large investments

In addition to the ten largest investments shown on page 70, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £15 million. This does not include three investments, which have been excluded for commercial reasons.

Investment	Description of business	First invested in	Cost[1] £m	Directors' valuation[1] £m
Tato Holdings Ltd	Manufacture and sale of specialist chemicals	1989	2	37
Pharmadule Emtunga AB	Modular facilities to pharmaceutical/biotech, offshore and telecom sectors	2003	35	35
Smartstream Technologies Group Ltd	Software and services	2000	26	34
Aspen Insurance Holdings plc[2]	Property/casualty insurance underwriters	2002	30	34
Cannon Avent Group plc	Manufacture of branded consumer products	1995	5	32
Refresco Holding BV	Fruit juice producer	2003	31	31
Ben Sherman Ltd	Manufacture of shirts and swimwear	1993	4	31
Pinewood Shepperton plc	Film/TV studios	2000	20	30
Total Home Entertainment Ltd	Wholesale and distribution of home entertainment products	2003	28	28
Grup Maritim TCB SL	Operation of port concessions	1999	13	28
Morse plc[2]	Technology reseller	1995	8	27
Beltpacker plc	Manufacturer/marketing healthcare/beauty products, footwear, accessories	2000	55	26
PaperPak Holdings Ltd	Manufacture of incontinence products	2002	14	26
Extec Holdings Ltd	Mobile crushers, screeners and shredders	2002	11	24
Goromor XXI SL	Manufacturer of frites and glazes for ceramic tiles	2002	24	24
Early Learning Holdings Ltd	Branded designer and retailer of educational toys	2001	6	24
Nimbus Holdings Ltd	Music label and entertainment	2001	24	24
HSS Hire Service Holdings Ltd	Tool hire	2004	24	24
Mettis Group plc	Manufacture and sale of forgings	1999	38	23
Target Express Ltd	Freight transport by road	2000	43	22
Petrofac Ltd	Oilfield services	2002	22	22
E2V Holdings Ltd	Switching, sensing and imaging components	2002	14	22
LDV Ltd	Manufacture of light commercial vehicles	1993	18	20
Alö intressenter AB	Manufacture of front end loaders	2002	21	20
Vendôme SA	Manufacturer of cosmetic and toiletry products	2002	11	20
Westvan (2001) Ltd	Speciality paper manufacturer	1995	15	20
CSR plc[2]	Single-chip wireless devices	1999	3	20
Azzurri Communications Ltd	Telecommunication services	2000	15	19
SCP Global Technologies, Inc	Semiconductor CAP equipment	2003	14	18
Local Press Ltd	Newspaper publisher	2004	18	18
LGC Ltd	Research laboratory	1996	–	18
Deutsche Telefon Und Marketing Services AG	Service telephony	1998	9	17
Incline Global Technology Services Ltd	Repair and remanufacture of flat panel displays	2002	17	17
Specialised Petroleum Services Group Ltd	Oilfield wellbore clean up	1999	16	17
Kaye Office Supplies Ltd	Stationery and office equipment wholesalers	1993	6	16
Venture Production plc[2]	Oil and gas production	1997	5	16
Litchwer Pharma AG	Producer of herbal medicines	2004	16	16
Asia Multiplex SARL	Multiplex cinema operator	2002	10	15
Corinth Healthcare Ltd	Provision of locum and managed services to the healthcare market	2000	10	15
Mölnlycke Health Care AB	Manufacture of single-use surgical and wound care products	2001	14	15

Notes
1 The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.
2 Quoted company (including secondary markets).

New investment analysis

Analysis of the equity, fixed income and loan investments made by the Group. This analysis excludes investments in joint ventures.

Investment by product (£m)	2004	2003	2002	2001	2000
Buy-outs	492	482	361	687	579
Growth capital	313	273	258	362	340
Venture capital	174	176	420	923	457
Total	979	931	1,039	1,972	1,376

Investment by geography (3i only – excluding co-investment funds) (£m)	2004	2003	2002	2001	2000
UK	309	318	377	786	705
Continental Europe	401	304	312	560	306
US	61	74	119	134	28
Asia Pacific	13	20	26	49	31
Total	784	716	834	1,529	1,070

Investment by geography (including co-investment funds) (£m)	2004	2003	2002	2001	2000
UK	375	399	443	1,006	894
Continental Europe	526	436	446	770	422
US	61	74	119	134	28
Asia Pacific	17	22	31	62	32
Total	979	931	1,039	1,972	1,376

Continental European investment (£m)	2004	2003	2002	2001	2000
Benelux	73	67	64	63	39
France	89	36	84	117	84
Germany/Austria/Switzerland	186	149	146	346	130
Italy	19	32	13	64	48
Nordic	106	69	90	16	–
Spain	34	75	45	131	95
Other European†	19	8	4	33	26
Total	526	436	446	770	422

† Other European includes investments in countries where 3i did not have an office at 31 March 2004.

Investment by FTSE industrial classification (£m)	2004	2003	2002	2001	2000
Resources	11	12	15	67	17
Industrials	219	328	110	256	201
Consumer goods	306	194	206	371	167
Services and utilities	290	197	352	482	546
Financials	33	54	26	55	48
Information technology	120	146	330	741	397
Total	979	931	1,039	1,972	1,376

Portfolio analysis

The Group's equity, fixed income and loan investments total £4,326 million at 31 March 2004.

Portfolio value by product (£m)	2004	2003	2002	2001	2000
Buy-outs	2,306	2,001	2,253	2,338	2,622
Growth capital	1,487	1,349	1,814	2,099	2,357
Venture capital	533	589	1,042	1,368	991
Total	4,326	3,939	5,109	5,805	5,970

Portfolio value by geography (including co-investment funds) (£m)					
UK	3,024	3,041	4,018	4,792	5,240
Continental Europe	2,299	1,773	1,984	2,039	1,514
US	241	182	270	246	192
Asia Pacific	86	101	101	98	64
Total	5,650	5,097	6,373	7,175	7,010

Portfolio value by geography (3i only – excluding co-investment funds) (£m)					
UK	2,506	2,494	3,386	4,121	4,668
Continental Europe	1,511	1,175	1,373	1,363	1,049
US	234	180	264	235	190
Asia Pacific	75	90	86	86	63
Total	4,326	3,939	5,109	5,805	5,970

Continental European portfolio value (£m)					
Benelux	181	101	78	92	59
France	234	186	253	254	203
Germany/Austria/Switzerland	454	319	385	556	533
Italy	53	69	103	142	71
Nordic	332	273	304	26	6
Spain	224	211	222	234	135
Other European†	33	16	28	59	42
Total	1,511	1,175	1,373	1,363	1,049

† Other European includes investments in countries where 3i did not have an office at 31 March 2004.

Portfolio value by FTSE industrial classification (£m)					
Resources	155	186	268	232	185
Industrials	1,018	944	1,117	1,081	1,247
Consumer goods	1,026	873	1,080	1,237	1,138
Services and utilities	1,275	1,018	1,318	1,538	1,648
Financials	238	274	273	256	251
Information technology	614	644	1,053	1,461	1,501
Total	4,326	3,939	5,109	5,805	5,970

Portfolio value by valuation method (£m)					
Imminent sale or IPO	174	37	51	106	241
Listed	225	187	413	818	1,103
Secondary market	29	30	89	266	483
Earnings	1,347	938	1,210	1,033	1,226
Cost	509	607	1,077	1,078	626
Further advance	149	155	186	244	143
Net assets	103	139	132	147	144
Other (including other technology assets valued below cost)	328	282	219	157	119
Loan investments and fixed income shares	1,462	1,564	1,732	1,956	1,885
Total	4,326	3,939	5,109	5,805	5,970

Buy-out portfolio value by valuation method (£m)	2004	2003	2002	2001	2000
Imminent sale or IPO	103	12	14	30	33
Listed	103	67	144	279	573
Secondary market	1	7	15	23	21
Earnings	834	536	635	551	649
Cost	78	149	132	130	100
Net assets	20	40	36	32	45
Other	61	115	90	43	19
Loan investments and fixed income shares	1,106	1,075	1,187	1,250	1,182
Total	2,306	2,001	2,253	2,338	2,622

Growth capital portfolio value by valuation method (£m)					
Imminent sale or IPO	38	14	28	32	44
Listed	122	120	269	539	530
Secondary market	28	23	74	243	462
Earnings	513	377	544	442	511
Cost	202	187	234	134	102
Further advance	32	42	26	22	–
Net assets	82	98	88	114	98
Other	169	69	96	43	72
Loan investments and fixed income shares	301	419	455	530	538
Total	1,487	1,349	1,814	2,099	2,357

Venture capital portfolio value by valuation method (£m)					
Imminent sale or IPO	33	11	9	44	164
Earnings	–	25	31	40	66
Cost	229	271	711	814	424
Further advance	117	113	160	222	143
Net assets	1	1	8	1	1
Other technology assets valued below cost	64	79	23	15	2
Other	34	19	10	56	26
Loan investments and fixed income shares	55	70	90	176	165
Total	533	589	1,042	1,368	991

Technology portfolio value by stage (£m)					
Venture capital	533	589	1,042	1,368	991
Late stage technology					
Quoted	136	103	290	723	1,074
Buy-outs	305	294	214	231	312
Growth capital	317	250	170	7	2
	758	647	674	961	1,388
Total	1,291	1,236	1,716	2,329	2,379

The venture capital portfolio comprises investments in immature businesses which typically require further funding. The late stage portfolio comprises investments in more mature, typically self-funding businesses, including investments made by way of buy-outs and growth capital.

Venture capital portfolio value by sector (£m)					
Healthcare	169	195	288	237	181
Communications	117	112	185	264	223
Electronics, semiconductors and advanced technologies	73	72	139	140	166
Software	174	210	430	727	421
Total	533	589	1,042	1,368	991

Realisations analysis

Analysis of the Group's realisations proceeds (excluding third party co-investment funds).

Realisations proceeds by product (£m)	2004	2003	2002	2001	2000
Buy-outs	464	613	308	530	538
Growth capital	339	270	370	351	435
Venture capital	120	93	261	670	159
Total	923	976	939	1,551	1,132

Realisations proceeds by geography (£m)					
UK	608	727	794	1,366	986
Continental Europe	245	238	133	181	145
US	10	2	10	–	–
Asia Pacific	60	9	2	4	1
Total	923	976	939	1,551	1,132

Realisations proceeds (£m)					
IPO	7	37	55	253	48
Sale of quoted investments	118	110	370	536	351
Trade and other sales	532	493	303	470	423
Loan and fixed income share repayments	266	336	211	292	310
Total	923	976	939	1,551	1,132

Realisations proceeds by FTSE industrial classification (£m)					
Resources	14	60	52	34	6
Industrials	216	294	193	211	197
Consumer goods	167	192	255	278	176
Services and utilities	352	330	288	338	497
Financials	80	42	18	33	20
Information technology	94	58	133	657	236
Total	923	976	939	1,551	1,132

Funds under management

(£m)	2004	2003	2002	2001	2000
Third party unquoted co-investment funds	1,875	1,587	1,995	2,131	2,261
Quoted investment companies†	600	452	761	870	818
Total	2,475	2,039	2,756	3,001	3,079

† Also includes the 3i Group Pension Plan.

Private equity and venture capital – an introduction

Nature of private equity and venture capital The private equity and venture capital industry covers three broad categories of investment:

– *Early stage investment* (sometimes called "venture investment") – this is investment in early stage or start up businesses, usually engaged in life sciences research or technology development activities. Here, the investor ("the VC") would usually take a minority equity stake (i.e. less than 50% of the equity shares) in the business as part of a syndicate of venture investors; and the aim of the investment is to provide funding for development or research expenditure through a series of investment "rounds". Progress and prospects are re-assessed ahead of the provision of further funding.

– *Growth capital (or development capital) investment* – this involves the provision of capital to accelerate the growth of established businesses and generally involves the VC taking a minority equity position. It is a "product" suited to a diverse range of growth opportunities, including acquisitions, increasing production capacity, market or product development, turnaround opportunities, shareholder succession and change of ownership situations.

– *Buy-out investment* – this involves the purchase of an existing independent business or subsidiary or division of a corporate group from its current owners. This category of investment includes management buy-outs, management buy-ins, institutional buy-outs, etc. Here, the equity in the post buy-out business is usually shared between the management team and the VC, with the VC usually holding a majority stake. The finance for the buy-out would generally comprise around 60% of senior and mezzanine debt (usually provided by banks and mezzanine providers), with substantially all of the balance of the purchase price coming from the VC and a relatively small amount coming from the management team. In order to reflect the mismatch between the equity finance provided by the VC and the management team and the equity stake taken by each in the underlying business, a large part of the VC's finance is generally provided in the form of redeemable preference shares or shareholder loans.

Investment objective Like any other investment, the objective of the VC is to earn attractive returns on its investment commensurate with the risk being taken. The returns come either in the form of income (interest, dividends or fees) or capital gains. The contrast with investment in quoted companies is that the VC will usually prefer to crystallise its capital gain through a trade sale (i.e. a sale to a corporate purchaser) or flotation on the public markets of the underlying business. This preference tends to make private equity and venture capital investment medium to long term in nature, since time is required to implement the value growth strategy for the business and there will also be a wish to optimise the timing of the "exit".

The investment lifecycle The investment lifecycle for an investment can be broken down into five distinct phases, with each involving significant resource and capability on the part of the VC:

– *Origination* – the ability to access and create investment opportunities is critical to the VC's business model.

– *Developing and validating the investment case* – this phase involves capability in the areas of judgment, knowledge and experience within the particular business area in which the opportunity lies; building a management team and working with them to develop the value growth strategy; consideration of the exit strategy; and due diligence on all significant assumptions and inputs to the investment case.

– *Structuring and making the investment* – this phase involves financial structuring, negotiation and project management skills on the part of the VC. Relationships with banks, mezzanine finance providers, intermediaries and others are also important.

– *Implementing the value growth strategy* – this phase involves "actually making it happen", delivering value growth between making the investment and exit. If the strategy involves corporate acquisitions or mergers, restructuring the business, achieving growth in turnover or operating profits, the VC would need to have the required capability to ensure these are achieved. As important is the ability to assess and strengthen the management team as the life cycle proceeds – this might involve having access to a pool of management talent in order to match a particular need to a particular management skill-set.

– *Exit* – this phase generally involves a trade sale or flotation of the underlying business. Exit prospects and strategy should generally be reviewed on an ongoing basis during the investment's life – and the sale or flotation itself requires resource and capability from the VC, since both are lengthy and complex processes.

Types of investment vehicle The predominant vehicle in the industry is the independent, private, fixed-life, closed-end fund, usually organised as a limited partnership. These funds typically have a fixed life of 10 years. Investments generally consist of an initial commitment of capital which is then drawn down as the investment manager finds investment opportunities. Capital is returned to the investor via earnings distributions and sales of investments.

Some investment vehicles are organised as captive or semi-captive funds. A captive fund invests only for the interest of its parent organisation (which may be a bank or investment bank, insurance company, university, or whatever). A semi-captive fund mixes capital from both outside investors and the parent organisation. Both captive and semi-captive funds tend to be "evergreen" in nature – income from investments and proceeds received on the realisation of investments are substantially retained for further investment rather than being returned to investors.

There are also a limited number of private equity and venture capital investment companies, such as 3i, whose shares are listed on a stock exchange. These tend to be evergreen in nature and offer investors a relatively liquid exposure to private equity and venture capital.

Drivers of private equity and venture capital investment Some of the main drivers giving rise to investment opportunities are as follows:

– *Stock market conditions and M&A activity levels* – a strong stock market acts in many ways as an "engine" for private equity and venture capital, since it allows acquisitive listed companies to purchase businesses at attractive prices and also is more receptive to businesses seeking a listing. The ability of the VC to "exit" at reasonably high values is a key part of the investment model, and exit assumptions will be a key input to the pricing parameters at the time of investing. In addition, strong activity levels in the M&A market (which will often follow from good stock market conditions) tend to provide a source of investment opportunities when the acquiring group disposes of the unwanted parts of the business acquired.

– *Restructuring by large corporate groups* – as corporate groups change strategic direction or focus on core activities, they will often seek to sell unwanted or non-core subsidiaries or divisions, providing a good source of buy-out opportunities.

– *Entrepreneurial culture* – this is to do with the eagerness, across a society, of individuals to start up or grow businesses or to give up a secure corporate job for the opportunity to run or manage an independent business.

– *Growth strategies* – the pursuit of profits by businesses will often involve the use of growth strategies. Whether the strategy is to grow organically or through acquisition, there will usually be a funding requirement, which can be met through the provision of growth capital.

– *Regulatory factors* – regulatory factors will often act to force corporations to sell off business units or to limit or restrict courses of action by parties operating in the complex world of business. Additionally, regulatory factors can act to incentivise certain types of investment or courses of action. Either way, regulation can give rise to investment opportunity for private equity and venture capital.

– *Technological developments and expenditure on information technology* – both of these factors act as engines for investment in the early stage technology area, as entrepreneurs seek to exploit the development and research opportunities arising.

– *Succession issues* – especially in family-owned businesses, succession issues can give rise to investment opportunities.

Information for shareholders

Financial calendar	
Ex-dividend date	16 June 2004
Record date	18 June 2004
Annual General Meeting	11.00 am 7 July 2004
Final dividend to be paid	16 July 2004
Interim dividend expected to be paid	January 2005

Shareholder profile Location of investors at 31 March 2004	
1 UK (including retail shareholders)	79.08%
2 Continental Europe	6.81%
3 US	11.94%
4 Other international	2.17%

Share price	
Share price at 31 March 2004	629p
High during the year (19 February 2004)	686p
Low during the year (1 April 2003)	418p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2004	%
1 – 1,000	27,543	2,968	15,549,390	2.53
1,001 – 10,000	6,513	2,185	19,733,637	3.22
10,001 – 100,000	176	603	27,107,090	4.42
100,001 – 1,000,000	22	371	124,970,339	20.37
1,000,001 – 10,000,000	0	101	305,631,519	49.82
10,000,001 – highest	0	7	120,487,184	19.64
Total	34,254	6,235	613,479,159	100.00

The table above provides details of the number of shareholdings within each of the bands stated in the Register of Members at 31 March 2004.

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or visit our investor relations website www.3igroup.com for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

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