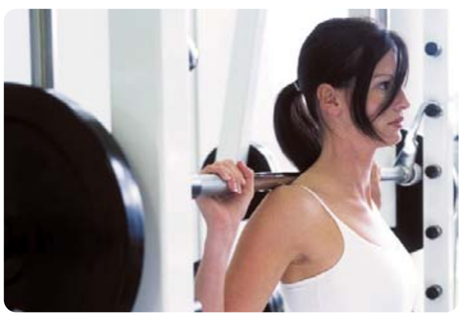
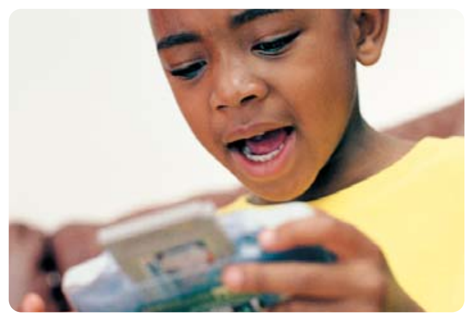
3i Group plc Report and accounts 2005








3i is a world leader in private equity and venture capital. We focus on Buyouts, Growth Capital and Venture Capital and invest across Europe, the United States and Asia.

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.

Contents

Financial statements

Additional financial information

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

Financial highlights

Return on opening shareholders' funds

15.9%

Realisation proceeds

£1.3bn

Total return

£512m

Dividend per share

14.6p

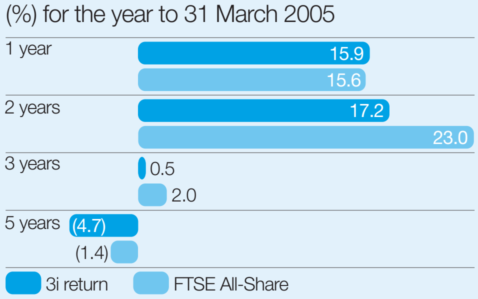
	2005	2004 (as restated)*
Total return on opening shareholders' funds	**15.9%**	18.8%
Diluted net asset value per share	**603p**	535p
Dividend per share	**14.6p**	14.0p
Realised profits on disposal of investments	**£260m**	£228m
New investment	**£755m**	£784m
– Including co-investment funds	**£962m**	£979m
Realisation proceeds	**£1.3bn**	£0.9bn
– Including co-investment funds	**£1.7bn**	£1.1bn

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts.

Gross portfolio return	2005	2004
Buyouts	**22%**	25%
Growth Capital	**24%**	23%
Venture Capital	**11%**	5%
Smaller Minority Investments ("SMI")	**7%**	17%

The relationship between 3i's measures of return is explained in detail on pages 20 and 78.

Comparison of 3i's compound annual return (net asset value plus dividends re-invested) with the FTSE All-Share total return index (%) for the year to 31 March 2005



3i at a glance

Our purpose:
to provide quoted access to private equity returns.

Our vision:
– to be the private equity firm of choice;
– operating on a world-wide scale;
– producing consistent market-beating returns;
– acknowledged for our partnership style; and
– winning through our unparalleled resources.

What we do

3i is a world leader in private equity and venture capital, investing in Buyouts, Growth Capital and Venture Capital.

We use our international network to source and assess a wide range of investment opportunities, selecting only those which meet our return and quality criteria. Then, having made an investment, we work in active partnership with the boards of our portfolio companies to create value all the way through to the ultimate realisation of our investment.

Where we operate

3i operates through a network of teams located in 13 countries in Europe, Asia and the US.

We continue to build and refine our network and are in the process of opening an office in Shanghai and recruiting a team to develop a business in India.

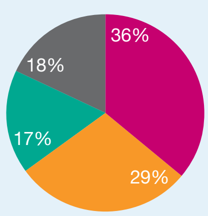
What differentiates 3i

3i's network, resources, scale and approach are our key differentiators. All of these deliver market access, insight for investment decision making and the ability to add significant value to the companies in which we invest.

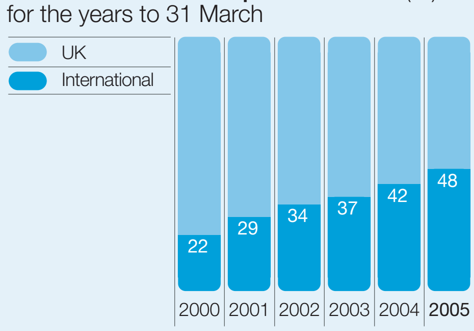
The strength of 3i's balance sheet also enables us to take a more flexible and longer-term approach to the financial structuring of individual investments.

Portfolio by value (£m) as at 31 March 2005

Buyouts	1,570
Growth Capital	1,226
Venture Capital	743
SMI	762



Trend in international portfolio value (%)
for the years to 31 March



Our business lines

Buyouts

3i's mid-market Buyout business operates primarily on a pan-European basis, investing in businesses with a transaction value of up to €1 billion.

Gross portfolio return

22%

Portfolio value

£1,570m

Financial highlights (£m)
for the year to 31 March 2005

Gross portfolio return	332
Investment	338
Realisation proceeds	505
Realised profit	117
Unrealised value movement	139

Growth Capital

3i's Growth Capital business makes minority investments in established and profitable businesses across Europe and Asia, typically investing between €10 million to €100 million per transaction. This business line also manages 3i's minority equity investments in smaller buyouts.

Gross portfolio return

24%

Portfolio value

£1,226m

Financial highlights (£m)
for the year to 31 March 2005

Gross portfolio return	286
Investment	263
Realisation proceeds	443
Realised profit	104
Unrealised value movement	116

Venture Capital

3i's Venture Capital business operates on an international basis, with a focus on the software, communications, healthcare and electronics sectors, typically investing between €2 million and €10 million per transaction.

Gross portfolio return

11%

Portfolio value

£743m

Financial highlights (£m)
for the year to 31 March 2005

Gross portfolio return	74
Investment	143
Realisation proceeds	156
Realised profit	37
Unrealised value movement	33

3i's Smaller Minority Investments ("SMI") initiative, established in 2001, generates returns from some of our older and lower-growth investments. It is our objective to realise the SMI portfolio over the medium term. SMI comprises 807 investments valued at £762 million, representing 18% by value and 54% by number of 3i's total portfolio.

Group financial highlights (£m) for the year to 31 March 2005

	Total	Buyouts	Growth Capital	Venture Capital	SMI
Gross portfolio return	762	332	286	74	70
Investment	755	338	263	143	11
Realisation proceeds	1,302	505	443	156	198
Realised profit	260	117	104	37	2
Unrealised value movement	270	139	116	33	(18)

A year of progress on many fronts

3i's business, balance sheet and board have all developed considerably this year. The results for the Company are a good financial performance and strong cash flow, an enhanced competitive position and opportunities to grow value for shareholders in the years ahead. In summary, a year of progress on many fronts.

Our very high level of realisations has afforded the opportunity to return £500 million to our shareholders, thus improving our capital efficiency, without compromising our ability to grow.

Each of our Buyout, Growth Capital and Venture Capital businesses has improved its competitive position in the year. Our strategy of developing the business internationally has progressed well and some 48% of 3i's portfolio value is now outside the UK.

A total return of £512 million for the 12 months to 31 March 2005 represents a 15.9% return on opening shareholders' funds, marginally better than both the FTSE All-Share (15.6%) and the FTSE 100 (15.4%) total return indices in the same period, and ahead of 3i's share price.

The Board is recommending a final ordinary dividend of 9.3p, making a total ordinary dividend of 14.6p, an increase of 4.3% from 14.0p last year.

Looking forward, the Board intends to achieve the return of an additional £500 million to shareholders through a combination of special dividend and share repurchases. The Board therefore proposes to pay a special dividend of 40.7p per share (approximately £250 million) as soon as practicable after the Annual General Meeting on 6 July. The Board also proposes that the balance of about £250 million be returned to shareholders through a programme of on-market share buybacks beginning in July. Resolutions relating to both the special dividend and buyback proposals will be put to shareholders at an Extraordinary General Meeting we plan to hold immediately following the Annual General Meeting.

In my interim report to you I noted that the appointment of Philip Yea as Chief Executive in July 2004 was widely welcomed and that Philip had made a number of organisational changes in the autumn of 2004. These changes have positioned the business for growth, enhancing the linkage between our business lines and geographic markets and ensuring that 3i continues to attract, retain and develop the best talent.

A total return of £512 million for the 12 months to 31 March 2005 represents a 15.9% return on opening shareholders' funds

Simon Ball joined 3i in February and succeeded Michael Queen as Finance Director on 1 April 2005, the date when Michael formally became responsible for 3i's Growth Capital business. Rod Perry, who has done a tremendous job with our Venture Capital business since he became responsible for it in 2001, retires from the Board at our Annual General Meeting in July at the age of 60. He will be succeeded by Jo Taylor, who will join our Executive Committee in July. Rod's Human Resources responsibilities have been taken on by Denise Collis, who joined 3i and the Executive Committee in November.

I was also delighted to welcome Sir Robert Smith and Dr Peter Mihatsch as non-executive Directors to the Board in September 2004. Sir Robert brings a wealth of experience from the City and industry and has substantial private equity experience. Peter brings an extensive knowledge of German business as well as insights gained from growing a major international telecommunications business. 3i now has non-executives from the US, France and Germany, all countries where we have significant interests.

As ever, the macroeconomic prospects are complicated by global imbalances and shifts in the pattern of growth. 3i is, however, well placed to take advantage of these. We are already securing access to growth capital opportunities in India and China and our Venture Capital business is able to exploit its network in the US, Asia and Europe. Meanwhile, the pace of restructuring in Europe is accelerating.

A year of such good progress at 3i is the result of a team effort and I would like to pay tribute to three groups of people in particular. First, our teams around the world, who have worked with skill and determination to deliver these results. Second, the managers of our portfolio companies, who are the ultimate drivers of 3i's value, and third, the many people who work with 3i around the world to find, invest and grow businesses with us.

Sarah Hogg

Baroness Hogg
Chairman
11 May 2005

Our very high level of realisations has afforded the opportunity to return £500 million to shareholders, thus improving our capital efficiency

Chief Executive's statement

My role as Chief Executive is to deliver performance from the present business while building for the future.

I am pleased to report a strong set of results and good progress in the acceleration of 3i's development as a truly international private equity firm. Total return for the year was 15.9% on restated opening shareholders' funds. Both Buyouts and Growth Capital performed well, with gross portfolio returns of 22% and 24% respectively, and Venture Capital showed an improved performance with a gross return for the year of 11%.

Although, during the year, investment conditions were competitive for Buyouts, with increased funds flowing into European private equity and the high availability of debt, our teams invested £532 million, of which £338 million was from 3i's own resources. Growth Capital had a slower year in terms of the amount of investment (£263 million) but the pipeline going forward is encouraging. Our Venture Capital business continues to be selective and disciplined in its investment approach and invested £143 million.

A strong set of results and good progress in the acceleration of 3i's development as a truly international private equity firm

Realisation proceeds were £1.3 billion and these were generated at good uplifts to carrying value. The portfolio performed well and health remains sound, reflecting both improved investment processes and the relatively benign economic backdrop.

To assist understanding of our current business model, we have decided to report separately the returns from our SMI portfolio which, in fact, has been run by a dedicated team since 2001. This team continues to make excellent progress in realising value from this part of the portfolio.

At the time of our interims in November, I spoke of the opportunities I saw for the Group to continue to improve our returns but also to increase the level of our investment. In view of the opportunities within our Growth Capital business to invest at a larger deal size, which quite often involves investing in companies with cross-border ambitions, we have decided to operate this business line on a more integrated international basis.

We are accelerating the development of our Asian business by opening an office in Shanghai and starting the recruitment of a high quality team to develop a business in India. We are also actively building relationships to access the market for infrastructure investment in the UK and the rest of Europe. These steps are the prelude to achieving a higher level of investment over the next few years without diluting our returns.

Our vision:
to be the private equity firm of choice

Over the following pages we explain how we are working to achieve this.

In his new role as Head of Group Markets, Chris Rowlands has taken a number of important steps to improve the agility with which we bring our resources to bear in the market.

Our central sector group of industrialists has been strengthened to support the greater emphasis being given to sector specialisation in the origination of investments. We have also taken specific opportunities to add to the quality of our existing teams by bringing in fresh, relevant experience from outside, including Managing Directors for our German speaking and Indian businesses and our Group Marketing Director.

The creation of partnership style structures within each of our business lines has been supported in recent years by the introduction of carried interest schemes. These reward our teams for successful realisations. The continued success of our business line model within our international network is critically dependent upon the quality of our people and how well we deliver partnership models across the Group as a whole. Denise Collis, who joined our Executive Committee as Group Human Resources Director in November, is having a major impact on how we further improve our employment proposition and progress the development of our people to deliver a true culture of partnership across the Group as a whole.

As we develop our resources in new markets, we anticipate a modest increase in our cost base but, over the medium term, would expect our costs as a proportion of our gross returns to decline.

Following Michael Queen's move from Finance Director to head up our Growth Capital business, and the appointment of Simon Ball as his successor, the announcement in January that Jo Taylor would succeed Rod Perry in heading our Venture business has completed the series of changes required to implement our immediate plans. Rod has made a major contribution to the Group in this and other roles and I have asked him to continue his association with us by heading up an international advisory board for our Venture business.

At the interims, we took the step of making public the gross cash to cash returns that we are targeting for each of our business lines, as well as the volatilities that we expect to experience over given time periods (page 78). At the mid-point of these ranges and with an appropriate level of leverage to our equity base, we would expect to achieve an average return on equity of 20%.

The good returns we are achieving, and particularly the high level of realisation proceeds we have generated over the past two years, have given rise to a higher level of financial resources than we can profitably reinvest in the near term. By reference to the level of gearing we believe is appropriate for the business and, having reviewed our medium-term projections of cash flows, we have decided to take immediate steps to return capital to shareholders.

Although we intend to increase the amounts we invest, particularly through accelerating investment in growth capital opportunities and expanding our business lines and geographic footprint, we are committed to maintaining financial efficiency by returning cash when it is surplus to our investment needs.

Our strategic opportunities are clear and much change is under way to accelerate their delivery. At the same time, our teams are maintaining their focus on continuing to deliver high quality investment opportunities. Despite the hesitancy apparent in the financial markets, I intend to report further good progress towards our performance and strategic goals in the year ahead.

Philip Yea
Chief Executive
11 May 2005

Our vision:
operating on a world-wide scale

3i's business is conducted through an international network of teams, spread across Europe, the US and Asia. This global network provides market access and competitive advantage for each phase of the investment cycle.

3i in Europe

3i's Buyout, Growth Capital and Venture Capital businesses invest across Europe. This market, which is second only in size to the US, has progressed well over the past 12 months. 3i's strategy in Europe is focused on harnessing our strong regional presence and relationships with specialised teams for each business line and sector in which we operate. Our critical mass provides the market access and the capability to deliver.

3i in Asia

The market in Asia continues to develop and we believe that there are excellent opportunities to capture growth. The biggest opportunity for 3i in Asia is in Growth Capital. The opportunities look particularly encouraging in China and India, where strong economic growth is complemented by highly skilled work forces, entrepreneurial management teams and innovation. We also invest in established funds to build relationships and gain access to dealflow in specific markets in the region.

3i in the US

The US is the largest and most developed private equity and venture capital market in the world. To date, 3i has focused on the venture segment, investing in early and later stage situations where our international network can add value. The good relationships we have built with the major US technology corporates, our growing reputation with top tier syndicate partners and the insights gained from our presence in the US are critical to building and realising value from our venture portfolio in the US, in Europe and in Asia.

Focus Media

In November 2004, 3i invested US$8 million in a US$35 million funding round in Focus Media, the pioneer and market leader in digital outdoor media advertising in China.

Focus Media offers customers advertising opportunities through flat panel TV screens in over 15,000 prime commercial locations in mainland China.

Despite keen competition from other private equity houses, 3i was selected alongside Goldman Sachs due to our local presence, our track record in private equity and our reputation in the media sector.

3i's significant sector expertise not only enabled us to recognise the high growth potential of this innovative medium, but also to add considerable value post investment. This has included the introduction of Eric Rosenkranz, former Asia Pacific president of Grey Global Group and an established industry expert, as vice chairman.

The high growth of the business and its financial performance have put Focus Media in the position where it is now able to contemplate an IPO, possibly becoming the first media company in China to list on NASDAQ.

The power of our network

Any business operating on a world-wide scale must have the systems, communications and culture in place to maximise the benefit of its resources. In 3i's case, this means ensuring that all of our staff world-wide understand our vision and strategy and have access to the resources of the Group as a whole. The 3i portal provides instant access to our knowledge base and the regular gatherings of our teams by business line, sector and geography all ensure that 3i uses the power of its network.

Chris Rowlands
Head of Group Markets

Our vision:
producing consistent market-beating returns

The ownership model within the private equity markets is capable of delivering returns well in excess of the averages for public markets. Our investment teams are rewarded according to the realised returns they achieve.

Buyouts

3i's mid-market Buyout business is organised on a pan-European basis. At all stages of the process, from deal origination to exit, we assemble the "best team for the job" to create and help deliver the "value creation plans" we develop with management for every investment that we make. The strength of our market access, execution skills and ability to add value post investment are all critical to success.

Jonathan Russell
Head of Buyouts

Growth Capital

3i's Growth Capital business targets high quality private businesses. Whether a business is growing organically or by acquisition, 3i's brand, network, balance sheet and resources can be a compelling offering to the owners of these companies. We have the ability to structure investments flexibly with private shareholders, aligning interests and supporting growth.

Michael Queen
Head of Growth Capital

Venture Capital

3i's Venture Capital business is focused on turning high potential into high return through harnessing the strength of our international network and being active partners with the management teams we back. To make the right investment judgments and to deliver our return goals, we have specialist venture investment and portfolio management teams with a deep understanding of our chosen sectors.

Jo Taylor
Head of Venture Capital (from July 2005)

Buyouts

Westminster Health Care

3i's investment in Westminster Health Care ("WHC"), delivered a money multiple of 4 times 3i's original investment and an internal rate of return of over 80% upon the sale of the company to Barchester Healthcare for £525 million, in October 2004.

In 2002, 3i led the £267 million buyout of WHC, the third largest UK high quality care home operator with 5,680 beds in 88 care homes, backing Tony Heywood as chief executive and introducing Nick Irens as chairman.

3i was attracted by the experience and track record of the management team, the quality of WHC's estate and its strong brand and reputation.

Our in-depth understanding of the healthcare sector allowed us to add value by working in partnership with the management team to develop a number of successful specialist care operations. These initiatives, together with organic growth, enabled WHC to outperform its buyout plan from the outset, with profits rising by over 60% during the two and a half years of 3i's ownership.

Prior to exit, 3i positioned the business with key potential buyers, engineering a closely contested auction process won ultimately by Barchester Healthcare, creating one of the largest healthcare groups in the UK.

Growth Capital

Pets at Home

The £230 million sale of Pets at Home to private equity firm Bridgepoint in July 2004, delivered cash proceeds to 3i of £85 million, including a £12.5 million dividend on exit, a 3.5 times cash multiple on our investment.

3i supported Pets at Home, a specialist retailer for pets and pet products, over eight years.

When 3i first invested in 1996 to support organic growth and back the founder Anthony Preston, a 3i alumnus and proven entrepreneur, the company had 15 stores and employed 100 people.

In 1999, 3i invested again to fund the acquisition of the company's main competitor, PetSmart from its US parent. By 2004, Pets at Home had 150 out-of-town stores across the UK, employed 2,700 people and generated a turnover of £218 million in the year to March 2004.

Pets at Home is a good example of 3i supporting organic growth, a transformational acquisition, adding considerable value through the introduction of a non-executive director and helping to manage a successful exit process.

Financial management

Our business lines are focused on delivering market-beating returns across their respective operations. We can optimise both the level of these returns and the consistency of their delivery through leveraging the Group's financial resources and actively managing the risk profile across our portfolio. By combining this with a strong focus on the size and shape of our cost base, we can deliver an enhanced return on equity to our shareholders.

Simon Ball
Finance Director

Our vision:
acknowledged for our partnership style

We value our relationships as a source of long-term advantage. Each of our business lines operates according to a partnership model and we manage and encourage partnership behaviours across all our business lines to support the firm's long-term development.

Buyouts

Yellow Brick Road

In 1997, 3i backed Gary List to buy out the UK's number two directories business, Thomson Directories. After exiting well, just two years later, 3i looked across Europe for similar opportunities. The relationship between 3i's Finnish venture business and telecommunications group, Sonera, enabled 3i and Veronis Suhler Stevenson ("VSS") to buy out Sonera's telephone directories business Fonecta, in 2002.

In 2003, 3i and VSS led the buyouts of KPN's directories businesses, De Telefoongids in the Netherlands and Verizon's directories businesses in Austria and central Europe. This brought the combined investment by 3i and its buyout funds in these separate investments to €140 million.

In 2004, together with advisers and management from 17 different nationalities, the three businesses were merged to form Yellow Brick Road ("YBR"), under the chairmanship of Gary List.

A refinancing of the combined group raised €1 billion of new debt and delivered cash returns for 3i and its co-investment funds of €224 million. After this merger, 3i and funds retained 44% of YBR, a business making over €150 million EBITDA and one of the fastest growing directory businesses in Europe.

Venture Capital

Babelstore

In February 2005, 3i led the €7million venture funding for Babelstore, which owns PriceMinister.com, a leading French online "e-tailer" with 2.5 million members.

The PriceMinister website, launched in 2001, now processes more than 10,000 sales per day from the 10 million items for sale. This has made it one of the top five "e-tailers" in France.

3i first met the management team in late 2002, and developed a strong relationship. When Babelstore sought additional capital in 2004 to expand internationally, this relationship and 3i's international network made 3i a natural choice.

3i is supporting the expansion of Babelstore's operations in France, Italy and Spain as well as the development of new online product categories (including cars).

3i has introduced a non-executive director with significant sector experience and is currently assisting the company in recruiting a chief financial officer.

Buyouts

Travelex

In February 2005, 3i and Lloyd Dorfman reached conditional agreement with Apax in a deal to purchase Travelex in a £1 billion transaction. Completion of the deal is scheduled for the summer of 2005 and 3i is forecast to achieve a total money multiple of over 10 times its original investment. 3i will retain a 7% stake upon completion.

3i backed the buyout of Travelex in December 1998, having been introduced to Lloyd Dorfman, who founded the business in 1976, by the then Deputy Chairman of 3i. Under Lloyd Dorfman's leadership, Travelex has become the world's largest foreign exchange specialist employing around 6,000 staff in 35 countries, carrying out approximately 30 million transactions a year and serving 17,000 corporate and financial institution customers.

Following strong initial performance, 3i worked with the company to launch a high yield bond in August 2000, enabling early repayment of £23 million of loans to 3i and leaving 3i with a 33% shareholding for a cost of £200,000.

3i has supported Travelex through several key strategic moves, using its reputation in the City of London and financial expertise.

These key strategic events included the acquisitions of Transpay from Barclays and Thomas Cook Global & Financial Services, a business three times the size of Travelex.

People matter

In our business, market-beating returns require market-leading people. Our vision is dependent upon high calibre teams. Teams working in a multinational and diverse environment, and people who command the respect of the entrepreneurs and business leaders that we work in partnership with across the world. My job is to ensure that 3i wins in the market, both through our people and for our people. This means attracting the best talent, investing in their development to meet the market challenges of both today and tomorrow, and creating the right spirit of partnership to harness their motivation.

Denise Collis
Group Human Resources Director

Our vision:
winning through our unparalleled resources

3i's world-wide presence, our long track record, our balance sheet resources and our specialist sector teams are all sources of competitive advantage.

Buyouts

Keolis

In September 2004, 3i and Eurofund IV invested €100 million in the capital restructuring of Keolis, with 3i's French team leading this €540 million transaction, supported by 14 3i executives from five different countries.

3i's local presence in countries where Keolis operates, our track record of success in the transport sector and our ability to source new management, including a new chairman, chief financial officer and non-executive director, were important to our partner, SNCF.

Keolis operates bus, tram and train networks on behalf of local authorities in eight countries, employing over 28,000 people.

It has grown revenue by around 15% per annum for the past four years to €2.2 billion in its 2004 financial year.

Keolis is the market leader in France and the number three player in Europe. The investment strategy is to continue to grow Keolis' international platform and to maintain its leadership in France by offering new innovative services and improving cost effectiveness for its clients.

Growth Capital

Pearl

3i invested US$15 million in August 2004 to support the growth of Singapore-based Pearl Energy, an independent exploration and production business with a portfolio of oil and gas interests across South East Asia.

3i's relationship with the management since 2000, combined with our sector credentials and ability to deliver an innovative, convertible investment structure within a tight timescale, secured the opportunity. Our experience and knowledge of the sector, gained from over 30 years investing in oil and gas, enabled us to move more quickly than our competitors.

The ability of our oil and gas team, which has over 40 other investments in the sector, to add considerable value, was also a key reason to invest. From our network, we were able to introduce an independent non-executive director, with extensive oil and gas experience, who subsequently joined the Pearl Energy board.

The management team was also looking for a partner with experience of helping companies prepare for a stock exchange listing. Following 3i's investment, our Singapore team worked closely with Pearl and its advisers to prepare the company for an IPO. Pearl Energy successfully gained a listing on the main board of the Singapore Stock Exchange in April 2005.

Venture Capital

Vette Corp

3i made a US$8.75 million late stage venture investment in a US$15 million financing in Vette Corp in October 2004. The company, based in New Hampshire, US, provides thermal management solutions for the computer and industrial electronics markets.

Vette Corp's strategy is to combine a secure, low-cost manufacturing operation in China with a world-class global sales team in order to build a large, integrated thermal solutions business in this highly fragmented market. Current suppliers of electronic thermal solutions are mostly small, heavily leveraged and burdened with high-cost manufacturing located outside of Asia.

The management team saw value in 3i's global network, with its presence in Asia, the US and Europe and its ability to introduce potential sources of financing and customers world-wide through 3i's corporate relationships.

The power of our resources

Marketing, sector focus and access to the most talented individuals are key to winning in our market place. The quality of our sector teams, the strength of our marketing and the reputation of our people programmes are all the result of continuous investment and innovation. Our sector events for 3i backed chief executives and large corporates from around the world are an excellent demonstration of this. As we extend our international reach, we are investing in building these capabilities.

Operating and financial review

Contents

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. It 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

The focus of 3i's business continues to be to invest in buyouts, growth capital and venture capital. Buyouts represent 36% of our portfolio by value at 31 March 2005, with Growth Capital at 29% and Venture Capital at 17%. Geographically, most of our investment is in businesses based in Europe, although 3i does have growing investment operations in the US and in Asia.

Buyouts

This business line invests in European mid-market buyout transactions with a value up to €1 billion and targets between 15 and 25 transactions per year. These investments typically involve 3i together with co-investment funds managed by 3i holding the majority of the equity of a portfolio company.

The vendors of businesses acquired through a buyout are typically large corporates disposing of non-core activities, private groups with succession issues or, in the case of a secondary buyout, other private equity investors.

3i targets the mid-market because that is where we believe we can create the most value. There is also 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". 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 segment, the underlying businesses will generally have significant growth potential and be attractive acquisition targets for a number of strategic purchasers. We anticipate growing this business broadly in line with the European mid-market.

Growth Capital

3i's Growth Capital business line targets investments of between €10 million and €100 million, across a broad range of sectors, business sizes and funding needs, investing in 20 to 30 transactions per year. These investments typically involve 3i acquiring minority stakes in substantial privately-owned businesses at key points of change. Growth capital can be invested to accelerate organic growth, to fund acquisitions or to acquire shares from existing shareholders to resolve a succession or other ownership issue. With such minority positions, we seek to ensure a high level of influence to create value for all shareholders.

3i's Growth Capital business is primarily focused on the European and Asian markets where we see excellent opportunities to grow investment by around 15% per annum.

Success in Growth Capital is increasingly driven by sector-focused marketing and the ability to add value to companies expanding internationally through giving them access to 3i's network. These factors, combined with 3i's traditional strength in managing relationships with regional businesses and intermediaries, give 3i significant competitive advantage.

In addition, because 3i's funding, unlike that of most of the private equity industry, is not constrained by being fixed-life or closed-end in nature, we are able to be more flexible regarding the investment holding period.

Our Buyout and Growth Capital business lines delivered strong returns again this year and Venture Capital continues to demonstrate improved performance

During the year, we commenced the recruitment of a team to develop a growth capital business in India, and announced our intention to open an office in Shanghai. In addition, we have also made commitments to invest in a central European growth capital fund and a Chinese growth capital fund. These investments will increase our understanding and capabilities in these developing markets.

3i will continue to target opportunities to invest in infrastructure, a segment of the market where we have historically made a number of successful investments.

Also included within this business line is our investment activity in smaller buyouts in Europe and Asia. These transactions typically have a value of less than €25 million. This activity is managed as part of Growth Capital as it generally involves 3i and its co-investment funds together taking only minority equity stakes.

The financial analyses provided in this review, of returns, amount invested and realisation proceeds by business line, include smaller buyouts within Growth Capital. This represents a change from the basis used in prior years where they were included within Buyouts. For ease of comparison, the 2004 figures have been restated on this new basis.

Venture Capital

3i's Venture Capital business is targeted at four key sub-sectors – healthcare, communications, software and ESAT (Electronics, Semiconductors and Advanced Technologies). The main geographic focus is Europe and the US, though the business also makes venture investments in Asia. As venture businesses compete globally, each investment opportunity is reviewed by reference to the relevant global sub-sector's competitive landscape.

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 typically invests between €2 million and €10 million in each new opportunity and, depending on circumstances and market conditions, we expect to invest between £150 million and £200 million per annum in venture capital.

3i's strategy

Consistent with our vision, we will continue to build our business internationally in markets where we believe we can generate market-beating returns. This will include extending business lines and building the capabilities necessary to deliver our targeted returns.

Integral to 3i's strategy is the ability to use our network to generate market-beating returns at each stage 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.

The main elements of our network are as follows:

Business line teams

Our specialist teams of investment executives in each of our Buyout, Growth Capital and Venture Capital business lines. 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 Initial Public Offerings ("IPOs") of companies from 3i's portfolio.

Sector specialisation

Our sector teams and the relationships that they have around the world provide market access, insight to investment judgment and the capability to add value. These sector teams are drawn from our investment and portfolio management executives and 3i's Sector Group, which comprises around 20 experienced senior industry specialists.

Local presence

The relationships that 3i has across the world with entrepreneurs, business leaders, corporates, universities, research organisations and intermediaries.

Relationships with corporates

Another benefit of 3i's scale, international reach and membership of the FTSE 100, is that we have developed valuable relationships with many of the leading corporates in each of the geographies and sectors in which we operate. Furthermore, 3i's ability to make effective business introductions across a range of geographies and sectors is increasingly a critical factor in our ability to "win deals" and provides 3i with a distinctive source of value creation.

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.

Sharing knowledge and relationships
Having invested in building such a significant network, it is imperative that 3i maximises its value through having the systems, processes and, most importantly, culture to enable this to happen. An important tool is the 3i portal. This web-based knowledge system provides everyone at 3i with instant access to the combined knowledge and relationships of the Group.

Organisation and office network
A number of changes to the management and organisation of our investment business were announced during the year. Chris Rowlands was appointed as Head of Group Markets, with responsibility for further developing the benefits of 3i's geographic network and our sector and business relationships. Michael Queen was appointed to succeed Chris Rowlands as Head of Growth Capital. These changes took effect from 1 April 2005. In addition, we announced that Rod Perry would be retiring as Head of Venture Capital in July 2005 and would be succeeded by Jo Taylor, who has run 3i's UK Venture Capital team since 1999. Jonathan Russell continues to lead our Buyouts business line.

Within each business line, a panel of 3i's most experienced investors ensures rigorous application of our investment processes. These panels also seek to ensure, on a case-by-case basis, that we assemble "the best team for the job" from our regional, sector and business line 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 initiative, which was established in 2001, continues to be successful in generating returns from some of the older and lower-growth investments. At 31 March 2005, £762 million of value (18% of 3i's total portfolio) and 807 investments (54% by number of 3i's total portfolio) were managed by the SMI team. It is our objective to continue to realise the SMI portfolio over the medium term.

As noted above, we have started the recruitment of a team for India and intend to open an office in Shanghai to complement our team based in Hong Kong. During the year, we closed a number of our smaller offices, in Padua, Nantes and Vienna. At 31 March 2005, we had a total of 28 offices (24 across Europe and two each in the US and Asia).

Since 31 March 2005, with a view to focusing our new business activity in the UK and Germany in fewer locations, we have communicated the decision to close our offices in central Birmingham, Reading and Düsseldorf. Following these closures, we will have eight offices in the UK, of which four (Aberdeen, Cambridge, London and Manchester) will focus on new business, with the other four (Birmingham – Trinity Park, Bristol, Glasgow and Leeds) being solely focused on portfolio management.

Operating review

Macroeconomic and market conditions
Overall, the macroeconomic environment in the geographies where 3i operates remained supportive during the year, though conditions within the different regions and sectors in which our portfolio companies operate were variable. Broadly, the year was one of economic growth with low levels of inflation and interest rates, which helped to keep business sentiment and consumer confidence positive throughout.
In currency terms, sterling strengthened slightly against the US dollar and a number of Asian currencies, and weakened slightly against the euro, giving rise to a modest negative impact on the competitive positions of some of our European and UK portfolio companies.

Stock market indices rose over the year as a whole, after a relatively subdued first half, though technology indices and markets did less well, experiencing either flat or moderately negative performances. The strong overall increase reflects improving confidence in underlying economic growth and prospects for corporate earnings. Mergers and acquisitions ("M&A") volumes, a key driver of activity in our Buyout business, remained relatively subdued, both in Europe and globally, as corporates remained cautious despite improved balance sheets.

The private equity markets in which 3i operates experienced increased levels of activity. Market statistics for calendar year 2004 show that total private equity investment in Europe increased by 18% compared with 2003, with buyout investment up by 15%, growth capital up by 61% (from a particularly low level in 2003) and venture capital up by 16%. The level of investment in 2004 represented the second highest year on record after 2000 (the height of the "technology bubble").

Market statistics for the venture capital market in the US show that investment in 2004 was up 11% on 2003; and statistics for the same period for Asia show overall private equity investment also up 11% on 2003.

Conditions for realisations improved, with the return of corporate buyers to the market and the IPO window reopening to some extent. Market statistics for Europe show a 53% rise in the number of divestments in 2004 compared with 2003. Secondary buyouts (sales of private equity-backed businesses to other private equity-backed teams or businesses) have become an increasing feature of the market place, providing a significant alternative realisation route. In 2004 they accounted for 28% of total buyout investment in Europe. In addition, 2004 saw increasing amounts of debt available, which led to an increase in refinancing activity across the industry.

The European mid-market for buyouts saw increased levels of competition during the year, driven by a combination of the high availability of debt at aggressive prices and the large amounts of cash in the hands of private equity investors. Rising leverage ratios often enabled private equity buyers to outbid trade buyers.

Within growth capital, the level of competition remained at much lower levels than for buyouts, with relatively few private equity players pursuing these transactions. The market itself is much less well-defined and understood than buyouts, but we have noted a growing acceptance in some of the less mature private equity markets in Europe of the role of external equity funding in enabling businesses to grow. We continue to believe that the use of private equity to facilitate cross-border expansion within the European market is a key driver of investment opportunity.

For venture capital, 2004 saw a number of positives, including signs of increasing technology expenditure by corporates, greater willingness on the part of the stock markets to absorb venture-backed companies, especially within the biotechnology sector, and the return of trade buyers in greater numbers, particularly from the US. The fundraising environment in Europe remained slow and difficult throughout 2004, influencing the choice of syndicate partners for 3i.

56% of the amount invested in the year was made outside the UK

Table 1: **Total return**

	2005 £m	2004 (as restated) £m
Realised profits on disposal of investments	**260**	228
Unrealised profits on revaluation of investments	**270**	336
Portfolio income	**232**	199
Gross portfolio return	**762**	763
Fund management fee income	**30**	35
Total income	**792**	798
Carried interest and investment performance plans	**(66)**	(40)
Administrative expenses	**(172)**	(163)
Net portfolio return	**554**	595
Net interest payable	**(36)**	(60)
Other	**(6)**	(11)
Total return	**512**	524

Table 2: **Return by business line** (£m)

	Buyouts		Growth Capital		Venture Capital		SMI		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004 (as restated)
Gross portfolio return	**332**	291	**286**	258	**74**	32	**70**	182	**762**	763
Return as % of opening portfolio	**22%**	25%	**24%**	23%	**11%**	5%	**7%**	17%	**18%**	19%
Net portfolio return									**554**	595
Return as % of opening portfolio									**13%**	15%
Total return									**512**	524
Total return as % of opening shareholders' funds									**15.9%**	18.8%

Total return

3i achieved a total return of £512 million for the financial year, which equates to 15.9% on restated opening shareholders' funds. This compares with returns on the FTSE All-Share, FTSE 100 and FTSE SmallCap (ex investment companies) total return indices of 15.6%, 15.4% and 11.4% respectively. The components of the total return are shown in table 1.

The main drivers of the total return were a good level of profitable realisations, strong levels of income and steady growth in the value of the portfolio.

Our Buyouts and Growth Capital business lines delivered strong returns for the second successive year, and Venture Capital continues to demonstrate improved performance. Table 2 contains an analysis of returns by business line, at the gross portfolio return level (ie before deduction of remuneration and other expenses).

We have decided this year to disclose separately the returns, amount invested and realisation proceeds of the SMI portfolio, in order to provide greater visibility on trends in our three ongoing business lines. In prior years, the SMI figures were included within those of the business line to which individual assets previously related. For ease of comparison, we have adjusted the 2004 figures to show them on the same basis as those for 2005.

For Buyouts, the gross return of 22% was underpinned by a high level of profitable realisations and the continuing strong performance of the portfolio. The Growth Capital business line achieved a 24% gross return, mainly as a result of strong realisation profits and good "first-time uplifts" on a number of recent investments. Venture Capital made a gross return of 11%, reflecting a good level of realised profits and a number of valuation increases arising as a result of portfolio companies raising funds from new investors at increased values. Across each of the business lines, we have seen the portfolio's health improving and the level of provisions falling.

The gross portfolio return from the SMI portfolio was £70 million (7%), which comprises £86 million of income receipts, realised profits of £2 million and a net unrealised valuation reduction of £18 million.

Investment

3i invested a total of £755 million (£962 million including investment on behalf of co-investment funds), which is marginally lower than the prior year and lower than our expected run-rate over the cycle. This reflects two main factors. First, within Buyouts, as noted previously, competition has been intense and price levels high, and we have sought to remain selective and disciplined in our approach. Second, in Growth Capital, as we have moved to a larger average deal size, investment levels are less evenly spread.

An analysis of the amount invested, by business line and geography, is given in table 5. Buyouts represented 45% of total investment, Growth Capital 35% and Venture Capital 19%. Of the amount invested in Venture Capital, 59% was further investment into existing portfolio companies.

Continental European investment represented 45% of the total invested, the US 7% and Asia 4%. The share of investment represented by continental Europe reflects our focus on the relatively less mature private equity markets there compared with those in the UK. 3i's ability to access and execute deals across Europe through our regional presence and ability to resource transactions on a pan-European basis has also driven investment growth.

Table 3: **Summary of changes to investment portfolio**

	2005 £m	2004 £m
Opening portfolio	**4,326**	3,939
Investment	**755**	784
Realisation proceeds	**(1,302)**	(923)
Realised profits on disposal of investments	**260**	228
Unrealised profits on revaluation of investments	**270**	336
Other	**(8)**	(38)
Closing portfolio	**4,301**	4,326

Table 4: **First and subsequent investment**

	2005 £m	2004 £m
First investment in new investee companies	**491**	535
Drawdown on existing arrangements for first investments	**23**	18
Newly arranged further investment in existing portfolio companies	**173**	176
Other – including capitalised interest	**68**	55
Total	**755**	784

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

	UK		Continental Europe		US		Asia		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Buyouts	**193**	61	**145**	221	**–**	–	**–**	–	**338**	282
Growth Capital	**83**	184	**149**	123	**3**	3	**28**	9	**263**	319
Venture Capital	**50**	55	**44**	39	**48**	58	**1**	4	**143**	156
SMI	**8**	9	**3**	18	**–**	–	**–**	–	**11**	27
Total	**334**	309	**341**	401	**51**	61	**29**	13	**755**	784

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

	UK		Continental Europe		US		Asia		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Buyouts	**354**	94	**148**	58	**3**	–	**–**	53	**505**	205
Growth Capital	**327**	233	**103**	152	**7**	–	**6**	6	**443**	391
Venture Capital	**82**	58	**51**	22	**23**	10	**–**	1	**156**	91
SMI	**134**	223	**63**	13	**1**	–	**–**	–	**198**	236
Total	**897**	608	**365**	245	**34**	10	**6**	60	**1,302**	923

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

	2005 £m	2004 £m
Earnings multiples	**40**	287
Earnings	**20**	(37)
First-time valuation uplift from cost	**149**	238
Provisions	**(66)**	(143)
Up/(down) rounds	**36**	(70)
Other movements on unquoted investments	**79**	1
Quoted portfolio	**12**	60
Total	**270**	336

Realisations

3i generated realisation proceeds of £1,302 million (2004: £923 million) during the financial year, reflecting a profit over 31 March 2004 values of £260 million (25%), compared with £228 million (33%) in the prior year. The uplift over 31 March 2004 values on realisations of equity investments was 40% (2004: 58%). The reduced uplift percentage relative to last year is largely due to the high level of realisations achieved in the earlier months of the year. These assets were realised for amounts similar to their carrying value at 31 March 2004 as they were then valued on an imminent sale basis.

Realised profits are stated net of write-offs, which amounted to £37 million (2004: £50 million). Overall, 24% of the opening portfolio (by value) was realised during the year (2004: 18%), including sales and redemptions of loans and fixed income shares.

Table 6 shows an analysis of realisation proceeds by business line and geography. Realisations were strong across all business lines, but most significantly within Buyouts, where advantage was taken of the high level of secondary buyout activity. Geographically, the UK was particularly active, generating 69% of total proceeds.

Although most of our realisation proceeds continue to come from sales of portfolio businesses to trade and financial purchasers, 12 portfolio companies achieved IPOs during the year on six different markets. The IPOs of Pinewood Shepperton, the film and TV studios business, in May 2004 and E2V Holdings, a supplier of switching, sensing and imaging components, in June 2004, were notable in providing 3i with a 100% cash realisation on IPO.

Significant individual contributions to our realisation proceeds for the year were Yellow Brick Road, the telephone directories group, where we achieved interim realisation proceeds of £61 million through a merger and refinancing completed in April 2004;

and the sale in October 2004 of Westminster Health Care, the care homes operator, which generated realisation proceeds of £155 million at an uplift of £97 million over its 31 March 2004 valuation.

As noted in the market commentary above, sales of businesses to financial purchasers, through secondary buyouts, were a feature of the market during the year. Realisation proceeds of £182 million arose through such sales of portfolio businesses. In addition, conditions were favourable for refinancing businesses and we were able to generate realisation proceeds of over £100 million through refinancings, with the merger and refinancing of Yellow Brick Road being the prime example.

Sales of quoted equity benefited from the general rise in equity markets and a more active realisation strategy by 3i, with proceeds of £134 million and a profit of £28 million (26%) over 31 March 2004 valuations.

Unrealised value movement

The unrealised profit on the revaluation of investments was £270 million (2004: £336 million). 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 was 12.0 at both the end and the start of the year. However, for those investments valued on an earnings basis at both dates, the weighted average earnings multiple rose from 11.7 to 12.3 over the year, giving rise to a value increase of £40 million (2004: £287 million). In the prior year, largely because of the general rise in equity markets, the weighted average earnings multiple increased from 8.1 to 12.0 over the year.

The aggregate attributable earnings of investments valued on an earnings basis at both the start and the end of the year increased by approximately 3%, giving rise to a £20 million value increase. A number of strongly-performing Buyouts and Growth Capital assets contributed significantly to this increase. It should be noted (by reference to table 7) that the value movement relating to first-time uplifts includes £74 million which is due to earnings growth and that the "other movements on unquoted investments" item includes a net £3 million valuation increase in respect of investments that moved between a net assets and an earnings basis of valuation. The net value movement due to earnings growth is therefore a £97 million increase.

The net valuation impact arising on investments being valued on a basis other than cost for the first time ("first-time uplifts") was £149 million (2004: £238 million). This is a reflection of the quality of investments made in recent years and also of the general increase in price levels over the period.

Provisions against the carrying value of investments in businesses which may fail totalled £66 million (2004: £143 million), representing 1.5% of the opening portfolio value and a significant improvement over levels in recent periods.

There was a net £36 million valuation increase (2004: £70 million decrease) as a result of investee companies raising funds from new investors at increased values (£56 million), net of value reductions (£20 million) relating to the application of 3i's downround valuation methodology and fair value adjustments to our Venture Capital portfolio.

Other movements on unquoted investments include valuation increases totalling £101 million on investments being revalued on an imminent sale basis. This includes £52 million in respect of the announced sale of Travelex, the foreign currency services business, which is due to complete in the summer.

The quoted investments held at the end of the year increased in value by an aggregate £12 million over the year, largely reflecting the rise in equity markets.

Carried interest and investment performance plans

Market practice in the private equity industry is to offer investment staff the opportunity to participate in returns from successful investments through "carried interest" or similar arrangements. The charge in the year of £66 million (2004: £40 million) reflects both profitable realisations and strong value growth on a number of recent investments.

Amounts payable under such arrangements on the successful realisation of investments in the year totalled £30 million (2004: £8 million). A further £36 million (2004: £32 million) has been accrued in respect of amounts that would be payable under such arrangements if assets were ultimately realised at their 31 March 2005 carrying values.

Income and costs

The main elements of income and costs are shown in table 1 on page 20.

Total portfolio income was £232 million (2004: £199 million). The increase when compared with the prior year is due mainly to the receipt of several large special dividends arising on the sale of investments, an increase in the level of interest income and a rise in deal-related fees (net of abort costs).

Management expenses of £172 million (2004: £163 million) were 6% higher than in the prior year, during a period in which our staff headcount fell slightly, from 771 at the start of the year to 740 at the end. The increase reflects the costs associated with "upskilling" our investment teams and the costs associated with changes in senior management.

Net interest payable decreased relative to last year, reflecting both the reduced level of net borrowings and the lower average rate of interest following the €550 million convertible bond issue in August 2003.

Chart A: **Portfolio value by business line** (£m)
as at 31 March 2005

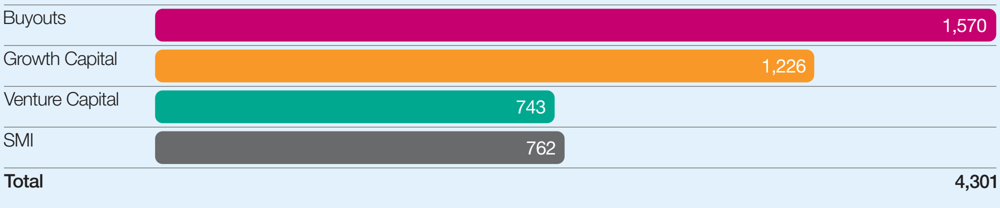


Chart B: **Portfolio value by geography** (£m)
as at 31 March 2005

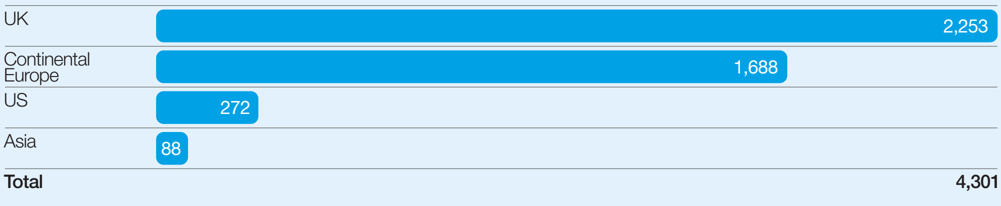


Chart C: **Portfolio value by FTSE classification** (£m)
as at 31 March 2005

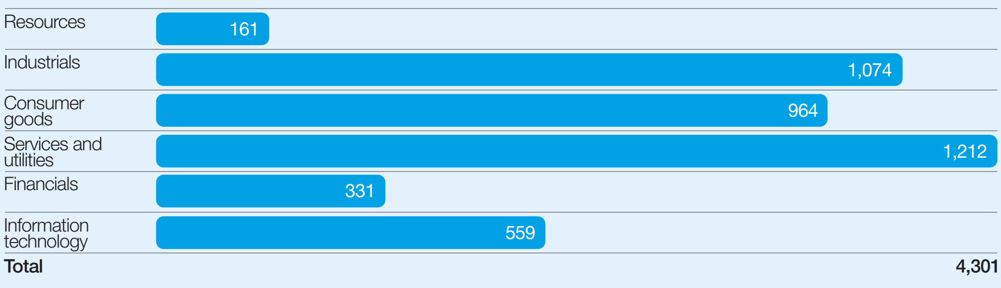
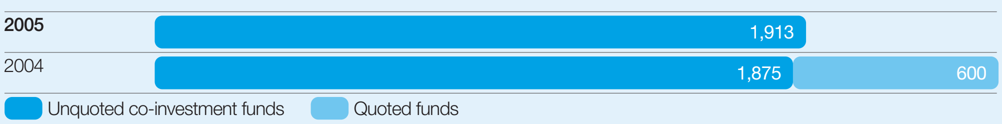


Chart D: **Third party funds under management** (£m)
as at 31 March



3i closed its quoted fund management business during the year.

The portfolio

The number of investments in the portfolio fell from 1,878 (of which SMI was 1,079) at the start of the year to 1,502 (of which SMI was 807) at the end, reflecting the high level of realisations. We would expect this trend to continue over the medium term, as a result of our SMI initiative and partly also of our strategy of making a smaller number of higher value investments than in the past.

Charts A, B and C show the portfolio analysed by business line, geography and industry sector respectively. At the year end, 36% of the portfolio was represented by Buyouts, 29% by Growth Capital investments and 17% by Venture Capital investments. Geographically, 52% was in the UK, 39% in continental Europe, 7% in the US and 2% in Asia.

Although the number of investments in 3i's portfolio has reduced, 3i still has, in contrast to many others in the private equity industry, relatively low exposure to individual company risk. The top 10 investments represented 15% of portfolio value at the year end and the top 50 investments 40%.

Fund management activities

Consistent with our announcement last July, we have ceased managing quoted funds and our fund management activities now comprise solely the management of private equity funds.

These funds are primarily co-invested alongside 3i's own capital when financing buyouts, enabling an investment to be made without 3i holding a majority interest. During the year, 3i earned fee income of £27 million (2004: £31 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of third-party funds under management. At 31 March 2005, the invested portfolio managed on behalf of private equity fund investors was valued at £1,260 million (2004: £1,324 million), excluding undrawn commitments. The final closing of Eurofund IV, our latest fund targeted at pan-European mid-market buyouts, took place in June 2004 with 25 investors. We subsequently placed further commitments with an additional 15 investors, taking total third party commitments to €1.1 billion. At 31 March 2005, Eurofund IV was 44% committed, with investments in 30 companies.

As noted above, we have ceased managing quoted funds and have closed our 3i Asset Management operation. Fees earned from quoted fund management amounted to £3 million (2004: £4 million) and total third party quoted funds under management at 31 March 2005 were £nil (2004: £600 million). Net costs incurred in closing the 3i Asset Management operation were not material.

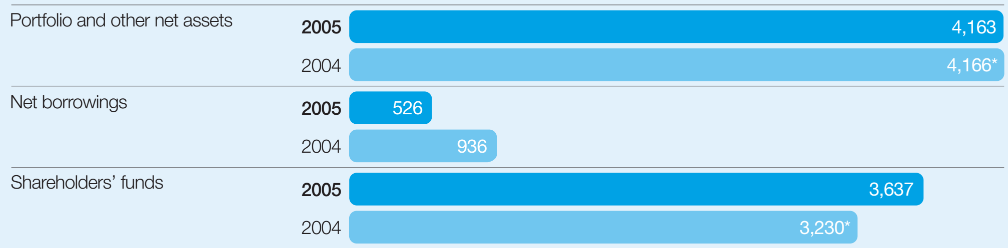
Accounting policies and valuation

Valuation
The valuation guidelines of the British Venture Capital Association were superseded with effect from 1 January 2005 by "International private equity and venture capital valuation guidelines", issued and endorsed by the BVCA, the European Private Equity and Venture Capital Association and the French national association, AFIC. These new guidelines effectively incorporate, without substantial change, the superseded guidelines of the BVCA and have not resulted in any changes to 3i's valuation methodology.

Changes to accounting policies
Financial Reporting Standard 17 "Retirement Benefits" was implemented in full for the first time during the year. Additionally, the recommendations of Urgent Issues Task Force Abstract 38 "Accounting for ESOP Trusts" were implemented and the presentation of comparatives changed accordingly.

Introduction of International Financial Reporting Standards ("IFRS")
Work to comply with the requirements of IFRS in the year to 31 March 2006 is advancing to plan. Differences have been identified, revised accounting policies are being finalised and systems changes have been implemented. We are

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



* The figures at 31 March 2004 have been restated to reflect the adoption of FRS 17 and UITF 38.

confident that 3i will be able to meet requirements for financial reporting during the year to 31 March 2006. The first financial statements prepared on an IFRS basis will be those for the six months to 30 September 2005. Further details are provided on page 55.

Financial review

Cash flows
The key cash flows during the year were the aggregate cash outflow of £719 million (2004: £756 million) in respect of investment and cash inflows totalling £1,287 million (2004: £913 million) in respect of proceeds received on realising investments. Net cash inflow for the year was £433 million (2004: £45 million), reducing net borrowings at the year end to £526 million (2004: £936 million). The level of gearing fell from 29% as restated at 31 March 2004 to 14% at 31 March 2005.

Capital structure
3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash. There were no significant changes in 3i's capital structure during the year, other than the growth in shareholders' funds and the strong cash inflow.

Long-term borrowing at 31 March 2005 is £1,623 million and is repayable as follows: £154 million between one and two years, £818 million between two and five years and £651 million after five years. In addition, at the year end, 3i had committed and undrawn borrowing facilities amounting to £579 million and cash and other liquid assets totalling £1,199 million. We are confident we have in place adequate funding for foreseeable investment needs.

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

Proposal to return capital to shareholders
As indicated in the Chairman's statement, it is intended that £500 million will be returned to shareholders through a combination of a special dividend and a programme of on-market share buy-backs.

The pro-forma level of gearing at 31 March 2005, based on flowing through into net borrowings the impact of this £500 million proposed return of capital and the proposed final dividend of £56 million, is 34%. This represents a more efficient level of balance sheet leverage for our shareholders, whilst maintaining the funding we require to achieve our medium-term investment plans.

Risk management

Introduction
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. However, the majority of the portfolio by value (52%) 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, which may be subject to 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 2005.

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 is currently in the process of implementing a new policy for foreign exchange risk management. The policy is designed to eliminate, as far as possible, the exposure of assets denominated in foreign currencies to movements in the exchange rates between sterling and the respective currencies. Foreign currency borrowings and swaps will be used to effect the hedges.

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. Other than as noted above, 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.

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 business line and geography. Within this framework, 3i invests in most sectors of the economy. 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 is 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. 39% 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.

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.

Core values:

we believe that the highest standard of integrity is essential in business. In all our activities, we aim to:

Be commercial and fair

Respect the needs of our shareholders, our staff, our suppliers, the local community and the businesses in which we invest

Maintain our integrity and professionalism

Strive for continual improvement and innovation

Our approach

Philosophy

As an international business operating in 13 countries with over 700 employees world-wide, 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") 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. 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 portal, a web-based knowledge system. Employees are encouraged to make suggestions to improve processes and procedures.

As an investor

Investment policy

3i has a portfolio of some 1,500 investments in businesses in Europe, Asia and the US. 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 is also active in promoting good governance in the private equity industry through the provision of tutors for courses run by the BVCA and the EVCA.

3i has 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.

Over the year 1,500 potential investments were considered and 67 new investments were completed. 1,280 potential investments did not proceed for financial or commercial reasons (including, in some cases, for social, ethical or environmental considerations).

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.

Relationship management

3i's key relationships are with the companies in which it invests together with the intermediaries, advisors and consultants used to facilitate investment and portfolio management. 3i actively engages with these groups to benchmark its performance and improve its investment procedures and skills. During the year extensive market research and surveys of these groups were conducted in the UK, France and Germany. Formal investor relations surveys of institutional investors and investors in funds under 3i's management were also undertaken on 3i's behalf.

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.

The 3i portal provides staff with access to all of our coporate responsibility policies and information.

In accordance with 3i's core values, individual consultation with employees on matters affecting them, and fair and open communication, are a high priority. During the year, 3i held an all-staff conference. The objectives of that conference were: to ensure that all staff understood 3i's vision, strategy and the challenges ahead; and to unify staff across business lines, geographies and job roles. In preparation for that conference, interviews were conducted by an independent consultant with over 100 employees to ascertain employees' satisfaction with, and concerns about, 3i. Following the conference, a further survey of all employees was conducted. The issues raised have been considered by executive management and, as and where appropriate, action taken.

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.

Training and development

Encouraging the continuous development of staff is important to 3i and its business. 3i's training and development programme includes courses on communications and presentations, working within a management matrix environment, coaching and mentoring, and Board 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 270 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 accordingly.

A programme of role-play-based workshops across the business and regular articles in 3i's staff magazine are used to raise awareness of corporate responsibility issues, to stimulate debate and provide employee training. During the year, seventeen workshops, covering approximately 240 employees, were held in the UK, continental Europe, Asia and the US. Following feedback from these workshops, a fact sheet, explaining 3i's approach to corporate responsibility and providing further information for staff was 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.

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 Simon Ball, 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 2005, 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.

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.

The Corporate Responsibility Committee

The Corporate Responsibility Committee, comprises Tony Brierley, Company Secretary and Chairman of the Committee, Denise Collis, Group Human Resources Director, Patrick Dunne, Group Communications Director, Douwe Cosijn, Head of Investor Relations, Albert Xu, an Investment Director in 3i's Asia investment business, Hans Middelthon, an investment executive in 3i's Oil and Gas team, and Ben Gales, an Associate in 3i's UK Venture Capital team.

Tony Brierley
Company Secretary

Procurement
3i has developed policies and procedures relating to the purchasing of goods and services for use by the business. These policies and procedures must be followed by all staff. As far as possible, 3i will work only with suppliers who support 3i's aim to source products responsibly. Suppliers that exploit child or "sweated labour", that disregard social legislation and basic health and safety provision, that "pirate" the intellectual property of others or that wilfully and avoidably damage the environment will be avoided. 3i aims to have a collaborative relationship with its suppliers and, wherever possible, when problems arise with a supplier's performance or behaviour, will work with the supplier concerned to help them meet 3i's requirements.

Environment
As a financial services business employing approximately 740 employees world-wide, 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.

In the year to 31 March 2005, 3i generated CO_2 emissions of approximately 9,500 tonnes. Over the two years to 31 March 2007, 3i aims to reduce these emissions by 6%. Progress against this target will be reported in the accounts for the year to 31 March 2006.

In the year to 31 March 2005, 3i generated an average of 5.8 kgs of waste per person per week in the UK, of which approximately 50% was recycled.

3i also assesses the environmental standards of suppliers, through its procurement policy and its purchasing choices will favour products showing clear environmental advantages, unless there are significant reasons for not so doing.

Charity and community
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 2005, approximately 23% 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 2005 amounted to £343,986, supporting a variety of different charities with donations up to £58,000.

How are we doing?

Performance and measurement
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

– the Business in the Community ("BitC") Corporate Responsibility 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 in the top of its industry group on a global basis. The DJSI researchers commented that "3i's sustainability performance is clearly positioned among the best in the industry. This is illustrated through 3i's strong capabilities in embracing corporate sustainability from strategic planning and implementation to monitoring and reporting. In the economic dimension, 3i sets industry best practice with its outperformance in risk and crisis management and scorecards/measurement systems." (source: SAM Research Inc)

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1. 3i was a founding sponsor of the European Venture Philanthropy Association in 2004.

2. 3i is proud to be one of BitC's "Top 100 Companies that Count".

3. 3i is a constituent of the 2005 Dow Jones Sustainability Index.

4. 3i has continued its financial support to In Kind Direct, a charity distributing manufacturers' surplus goods to voluntary organisations.

3i aims to continue to be included within this Index and to maintain its performance in the next DJSI assessment.

In 2004, 3i again participated in the annual BitC Corporate Responsibility Index. 3i was included in the BitC's "Top 100 Companies that Count" and was recognised for its outstanding performance in the area of corporate strategy (that is, how a company's activities influence its values and principles, how these are addressed through risk management, the development of policies and responsibilities held at a senior level in the company). 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 world-wide. 3i's health and safety procedures are also independently audited by the British Safety Council to evaluate the health and safety management system. 3i achieved a four star rating as a result of this evaluation process.

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 each statement made to be verified.

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Four examples of 3i's support for the local community near its offices in London.

1. 3i supported children and parents from local schools taking part in the 2004 Thames Festival.

2. In partnership with The Old Vic theatre, 3i enabled over 1,300 children to take part in pantomime workshops, and attend performances.

3. 3i continued its support for businessdynamics, which inspires young people to become involved in business.

4. Members of 3i staff support a voluntary reading initiative at a local school. (Models were used in this image.)

Board of Directors

01 Baroness Hogg
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 BG Group plc, and Carnival Corporation and plc. A Governor of the London Business School and a member of the Financial Reporting Council. From 1995 to 2002 Chairman of Foreign & Colonial Smaller Companies PLC. Formerly Head of the Prime Minister's Policy Unit. Aged 58.

02 Oliver Stocken
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, Standard Chartered plc and Stanhope plc. Formerly Finance Director of Barclays plc. Aged 63.

03 Philip Yea
Chief Executive and executive Director since joining the Company in July 2004. A member of the Nominations Committee and the Valuations Committee. Formerly Managing Director within the private equity business of Investcorp. A former Finance Director of Diageo plc and former non-executive director of HBOS plc and Manchester United PLC. Aged 50.

04 Simon Ball
Group Finance Director from April 2005 and member of the Executive Committee, joining the Company in February 2005. A member of the Valuations Committee. A non-executive director and Chairman of the audit committee of Leica Geosystems AG. Formerly, Director General Finance at the Department for Constitutional Affairs, Group Finance Director of Robert Fleming and Chief Operating Officer (UK) of Dresdner Kleinwort Benson. Aged 45.

05 Dr Peter Mihatsch
Non-executive Director since September 2004. A member of the Nominations Committee and the Valuations Committee. Chairman of the supervisory board of Giesecke and Devrient GmbH. A member of the supervisory boards of Vodafone GmbH, Vodafone D2 GmbH, Arcor AG and Alcatel SA. Formerly, a member of the management boards of Mannesmann AG and Mannesmann Kienzle GmbH, and Chairman of Mannesmann Mobilfunk GmbH. Aged 64.

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 Alcan, Inc and Pilkington plc, and a member of the supervisory board of Royal Dutch Petroleum Company. Formerly Chief Executive of Société Générale de Belgique, executive Vice-President and member of the executive committee of Suez and a director of Tractabel and Fortis. Aged 58.

07 Rod Perry
Executive Director since 1999. Responsible for Venture Capital investment. Joined 3i in 1985 as an Industrial Adviser and became Head of Information Systems in 1989. Appointed to the Executive Committee in 1996. Aged 60.

08 Michael Queen
Executive Director since 1997. Responsible for Growth Capital investment with effect from 1 April 2005. Joined 3i in 1987. From 1994 to 1996 seconded to HM Treasury. Appointed Group Financial Controller in 1996, and Finance Director and a member of the Executive Committee in 1997. Ceased to be Finance Director on assuming responsibility for Growth Capital investment. A non-executive Director of Northern Rock plc. Past Chairman of the British Venture Capital Association. Aged 43.

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 59.

10 Sir Robert Smith
Non-executive Director since September 2004. A member of the Audit and Compliance Committee, the Remuneration Committee and the Nominations Committee. Chairman of Weir Group plc and Scottish & Southern Energy plc. A non-executive director of Aegon UK plc and Standard Bank Group Limited. Formerly, a non-executive director of the Financial Services Authority and Bank of Scotland plc, Chief Executive of Morgan Grenfell Asset Management and a member of the Financial Reporting Council. Aged 60.

11 Fred Steingraber
Non-executive Director since 2002 and a member of the Nominations Committee and the Remuneration Committee. A director of Maytag Corporation, Elkay Manufacturing, 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 66.

Other members of Executive Committee

12 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 55.

13 Denise Collis
A member of the Executive Committee since November 2004. Responsible for Human Resources. Joined 3i in November 2004. Formerly HR Partner at Ernst & Young. Aged 47.

14 Chris Rowlands
A member of the Executive Committee since 2002. Responsible for Group Markets. Joined 3i in 2002 having previously been employed by 3i from 1984 to 1996. A non-executive director of Principality Building Society. Formerly a Partner of Andersen. Aged 48.

15 Jonathan Russell
A member of the Executive Committee since 1999. Responsible for Buyout investment. Joined 3i in 1986. Chairman of the European Private Equity and Venture Capital Association Buyout Committee. Aged 44.

16 Paul Waller
A member of the Executive Committee since 1999. Responsible for Funds. Joined 3i in 1978. Past Chairman of the European Private Equity and Venture Capital Association. Aged 50.

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 2004. Since that date, the Company has directed its affairs to enable it to continue to be so approved.

Regulation The Company was authorised and regulated during the year by the Financial Services Authority ("FSA") as a deposit taker. On 24 March 2005, the Company applied to the FSA to relinquish its authorised deposit taking status.

3i Investments plc, a wholly owned subsidiary of the Company, was during the year and remains an authorised person under the Financial Services and Markets Act 2000 ("FSMA 2000") and regulated by the FSA.

3i Japan GP Limited, another wholly owned subsidiary of the Company, was an authorised person under the FSMA 2000 and regulated by the FSA until it relinquished its authorised status on 15 April 2005.

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 2005 appear on pages 49 to 70.

Consolidated total return for the period was £512 million (2004: £524 million, as restated). An interim dividend of 5.3p per share was paid on 5 January 2005. The Directors recommend a final dividend of 9.3p per share be paid in respect of the year to 31 March 2005 to shareholders on the register at the close of business on 17 June 2005.

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 12,496,297 shares) as trustee of that trust.

Operations The Company owns substantially all the Group's investments. The Group operates through a network of offices throughout Europe, Asia 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.

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. In 2005 the Group discontinued its quoted asset management business.

Business review The Chairman's statement on pages 4 and 5, the Chief Executive's statement on pages 6 and 7 and the Operating and financial review on pages 16 to 26 report on the Group's development during the year to 31 March 2005, its position at that date and the Group's likely future development.

Share capital In the year to 31 March 2005, the issued share capital of the Company increased by 930,008 shares to 614,409,167 shares as a result of the issue of shares to the trustee of The 3i Group Share Incentive Plan and the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme.

At the Company's Annual General Meeting in 2004, shareholders renewed the Directors' authority, until the Company's Annual General Meeting in 2005, to repurchase up to 61,353,706 shares in the Company (representing 10% of the Company's issued share capital as at 10 May 2004). This authority was not exercised during the year to 31 March 2005.

Major interests in shares As at 3 May 2005, 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	6.83	41,992,415
Prudential plc and subsidiary companies	5.69	34,992,170
Legal & General Group plc	4.01	24,669,259
Scottish Widows Investment Partnership Ltd and other companies within the Lloyds TSB Group of companies	3.90	23,945,591
Barclays PLC	3.00	18,446,811

Directors' interests Details of the Directors' interests in the Company's shares are shown in note 38 to the accounts on page 67. Save as shown in note 38, no Director had any disclosable interest in the shares, debentures or loan stock of the Company or in the shares, debentures or loan stock of its subsidiaries during the period and there have been no changes in the above interests between 31 March 2005 and 3 May 2005.

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 Directors' remuneration report on page 46.

Directors' indemnities The Company's Articles of Association provide that the Directors shall be indemnified against liabilities incurred by them as Directors in defending any proceedings in which judgment is given in their favour, or where they have been acquitted or been granted relief by the court.

Under the rules of the 3i Group Pension Plan ("the Plan"), the Company has granted an indemnity to the directors of Gardens Pension Trustees Limited (a corporate trustee of the Plan and a wholly owned subsidiary of the Company) against liabilities incurred as directors of that corporate trustee. This indemnity does not apply to willful negligence, personal conscious wrongdoing or fraud or liabilities which are covered by insurance.

Management arrangements 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.

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.

Corporate governance Throughout the year to 31 March 2005, the Company complied with the provisions of section 1 of the Combined Code on corporate governance published by the Financial Reporting Council in July 2003.

The Company's approach to corporate governance The Company has a policy of seeking to comply with established best practice in the field of corporate governance. The Board has adopted core values and Group standards which set out the 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 periodically by the Board. The purpose of this plan is to identify suitable candidates for succession to key senior management positions, agree their training and development needs, and ensure the necessary human resources are in place for the Company to meet its objectives.

During the year, there were six scheduled meetings of the Board of Directors and one additional ad hoc meeting of the Board. The Directors who served throughout the year attended all seven meetings save for Mr F G Steingraber who attended the six scheduled meetings. Since their appointment to the Board on 29 September 2004, Sir Robert Smith has attended the four subsequent Board meetings and Dr P Mihatsch has attended three of these meetings. Mr S P Ball was unable to attend the one Board meeting held since his appointment on 7 February 2005. Dr J R Forrest attended one of the two meetings held prior to his ceasing to be a Director on 7 July 2004. Mr B P Larcombe attended the two meetings held prior to his ceasing to be a Director on 7 July 2004. Mr M M Gagen attended the three meetings held prior to his ceasing to be a Director on 23 August 2004.

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

The Chairman The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors.

The Chairman ensures that regular reports from the Company's brokers are circulated to the non-executive Directors to enable non-executive Directors to remain aware of shareholders' views.

The Chief Executive Mr P E Yea was appointed Chief Executive with effect from 7 July 2004 in succession to Mr B P Larcombe.

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, Ms D R Collis, 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, six other independent non-executive Directors and four executive Directors. Biographical details for each of the Directors are set out on pages 32 and 33. Baroness Hogg (Chairman), Mme C J M Morin-Postel, Mr R W Perry, Mr M J Queen, Mr F D Rosenkranz, Mr F G Steingraber and Mr O H J Stocken served throughout the period under review. Mr P E Yea served from his appointment on 7 July 2004, Dr P Mihatsch and Sir Robert Smith served from their appointments on 7 September 2004, and Mr S P Ball served from his appointment on 7 February 2005. Mr B P Larcombe and Dr J R Forrest served as Directors until 7 July 2004, and Mr M M Gagen served as a Director until 23 August 2004.

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

The Board's discussions, and its approval of the Group's 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 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 non-executive directorship of Pilkington plc and concluded that it did 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 particular committee chairman and members may attend a meeting unless invited to attend by the Committee. The terms of reference of these committees are available at www.3igroup.com.

Audit and Compliance Committee The Audit and Compliance Committee comprises Mr O H J Stocken (Chairman), Mme C J M Morin-Postel, Mr F D Rosenkranz and Sir Robert Smith. Sir Robert Smith joined the Committee on 29 September 2004. During the year, Dr J R Forrest served as a member of the Committee until 7 July 2004. The other members of the Committee served throughout the period.

All the members of the Committee are independent non-executive Directors. The Board is satisfied that the Committee Chairman, Mr O H J Stocken, has recent and relevant financial experience.

The Committee reviews the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements.

The Committee receives regular reports from the internal and external auditors, the regulatory compliance function and Risk Committee, 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 individually, 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. The members who served throughout the year attended all four meetings save for Mr F D Rosenkranz who attended three meetings. Since joining the Committee on 29 September 2004, Sir Robert Smith has attended two of the three meetings held. Dr J R Forrest was unable to attend the one meeting held before he ceased to be a Committee member on 7 July 2004.

Remuneration Committee The Remuneration Committee comprises Mr F D Rosenkranz (Chairman), Mme C J M Morin-Postel, Sir Robert Smith, Mr F G Steingraber and Mr O H J Stocken. Mr F G Steingraber joined the Committee on 29 September 2004 and Sir Robert Smith joined the Committee on 1 April 2005. During the year, Dr J R Forrest served as a member of the Committee until 7 July 2004. Dr P Mihatsch served as a Committee member from 29 September 2004 until 31 March 2005. The other members of the Committee served throughout the period.

All the members of the Committee are independent non-executive Directors.

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

During the year, there were six meetings of the Remuneration Committee. The members who served throughout the year attended all six meetings, save that Mme C J M Morin-Postel attended five meetings. Since joining the Committee on 29 September 2004, Mr F G Steingraber has attended all four subsequent meetings held. Dr P Mihatsch, who served on the Committee from 29 September 2004 until 31 March 2005, attended three of the four meetings held during that period. Dr J R Forrest attended one of the two meetings held before he ceased to be a Committee member on 7 July 2004.

Nominations Committee The Nominations Committee comprises Baroness Hogg (Chairman), Dr P Mihatsch, Mme C J M Morin-Postel, Mr F D Rosenkranz, Sir Robert Smith, Mr F G Steingraber, Mr O H J Stocken and Mr P E Yea. Mr P E Yea joined the Committee on 7 July 2004, and Dr P Mihatsch and Sir Robert Smith both joined the Committee on 29 September 2004. During the year, Dr J R Forrest and Mr B P Larcombe served as members of the Committee until 7 July 2004. Mr R W Perry was co-opted to assist the Committee in the appointment of a new Chief Executive. The other members of the Committee served throughout the period.

The terms of reference of the Nominations Committee provide that the Chairman of the Board shall not chair the Committee when dealing with the appointment of the Chairman's successor.

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

The Company's major shareholders are offered the opportunity to meet newly appointed non-executive Directors.

During the year, there were four meetings of the Nominations Committee. The members who served throughout the year attended all four meetings. Since joining the Committee on 7 July 2004, Mr P E Yea has attended the three meetings held. Since joining the Committee on 29 September 2004, Dr P Mihatsch and Sir Robert Smith have each attended one of the two meetings held. Mr B P Larcombe, who attended the one meeting held prior to his ceasing to be a Committee member on 7 July 2004, did not attend when succession to the post of Chief Executive was discussed. Dr J R Forrest was unable to attend the one meeting held before he ceased to be a Committee member on 7 July 2004. Mr R W Perry attended two meetings.

Valuations Committee The Valuations Committee comprises Baroness Hogg (Chairman), Mr S P Ball, Dr P Mihatsch, Mr O H J Stocken and Mr P E Yea. Mr P E Yea joined the Committee on 7 July 2004 and Mr S P Ball and Dr P Mihatsch both joined the Committee on 1 April 2005. Dr J R Forrest and Mr B P Larcombe served as Committee members until 7 July 2004. Mr M J Queen served as a Committee member until 11 May 2005. Sir Robert Smith served as a Committee member from 29 September 2004 until 31 March 2005. Baroness Hogg and Mr O H J Stocken both served throughout the period.

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 two meetings of the Valuations Committee. The members who served throughout the year attended both meetings. After joining the Committee on 7 July 2004, Mr P E Yea attended the one meeting held. Sir Robert Smith, who served on the Committee from 29 September 2004 until 31 March 2005, was unable to attend the one meeting held during that period. Dr J R Forrest and Mr B P Larcombe both attended the one meeting held before they ceased to be Committee members on 7 July 2004.

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, considered by the Nominations Committee, communicated to the Board and followed up with action as appropriate.

Re-election Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive Directors are appointed for an initial period of three years. Before the third and sixth anniversaries of a non-executive Director's first appointment, the Director discusses with the Board whether it is appropriate for a further three year term to be served. The reappointment of 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 6 July 2005:

i) Mr S P Ball, Dr P Mihatsch and Sir Robert Smith, having been appointed as Directors since the AGM in 2004, will retire and, being eligible, offer themselves for reappointment; and

ii) Mr R W Perry, Mr F G Steingraber and Mr O H J Stocken will retire by rotation and, being eligible, Mr F G Steingraber and Mr O H J Stocken offer themselves for reappointment. On 20 December 2004, the Company announced that Mr R W Perry would be retiring at the AGM on 6 July 2005.

The Board's recommendation for reappointment of Directors 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. During the year, at the invitation of the Chairman, the Company's major shareholders met with the Chairman, Deputy Chairman, Company Secretary and Finance Director to discuss matters of corporate governance and corporate responsibility relevant to the Company and its shareholders.

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. During the year, a formal survey of the perceptions of the Company's major shareholders was carried out by independent consultants on behalf of the Company. The results of this survey were considered by the Board. 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.

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 7 July 2004 was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, details of proxy votes received (including the number of abstentions) were disclosed in accordance with the recommendations of the Combined Code. These details were subsequently made available on the Company's website. 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.

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

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

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

The Group's remuneration policy is influenced by market conditions and practices in the countries in which it operates. All employees receive a base salary and are eligible for a performance related bonus and to participate in Group share schemes (except in the US) to encourage employees' involvement in the performance of the Group. Investment executives may also participate in investment performance plans and carried interest schemes, which allow executives to share directly in the future profits on investments. Further details of these plans are set out in the Directors' remuneration report. Employees participate in local state or company pension schemes as appropriate to local market conditions. As at the most recent valuation date, 99% of UK employees were members of the 3i Group Pension Plan (details of which are set out in the Directors' remuneration report).

Charitable and political donations Charitable donations made by the Group in the year to 31 March 2005 amounted to £343,986. Excluding the Company's matching of Give As You Earn contributions by staff, charitable donations amounted to £266,274, of which approximately 41% were to causes which aim to relieve poverty or benefit the community, or both, approximately 14% were to charities which advance education, and approximately 7% were to medical charities. Further details of charitable donations are set out in the Corporate responsibility report on pages 27 to 31.

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 £3,084, the Enterprise Forum of £1,880 and the Federal Trust of £300) amounted to £5,264.

Policy for paying creditors The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors during the year. 3i plc had trade creditors outstanding at the year end representing on average 14 day's 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 2005 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 auditors should be continued.

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

– services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors;

– services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records. 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 13 to the accounts on page 59.

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

11 May 2005

Registered Office
91 Waterloo Road
London SE1 8XP

Directors’ remuneration report

Remuneration Committee

Composition and terms of reference The Company’s Remuneration Committee (the “Committee”) comprises only independent non-executive Directors. Its members during the year to 31 March 2005 (the “year”) were Mr F D Rosenkranz (the Committee Chairman), Dr J R Forrest (who ceased to be a member on 7 July 2004), Mme C J M Morin-Postel, Mr O H J Stocken and, following their appointments to the Committee on 29 September 2004, Dr P Mihatsch and Mr F G Steingraber. Dr Mihatsch ceased to be a member on 31 March 2005 and Sir Robert Smith was appointed with effect from 1 April 2005. None of the members of the Committee sits with any executive Director on the board of any other quoted company. The Committee’s terms of reference take into account the provisions of the Combined Code on corporate governance and are available on the Company’s website.

Activities during the year The Committee met six 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 the other members of the Chief Executive’s management committee (called “Executive Committee”). The Committee also determined the fees payable to the Chairman of the Board. 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.

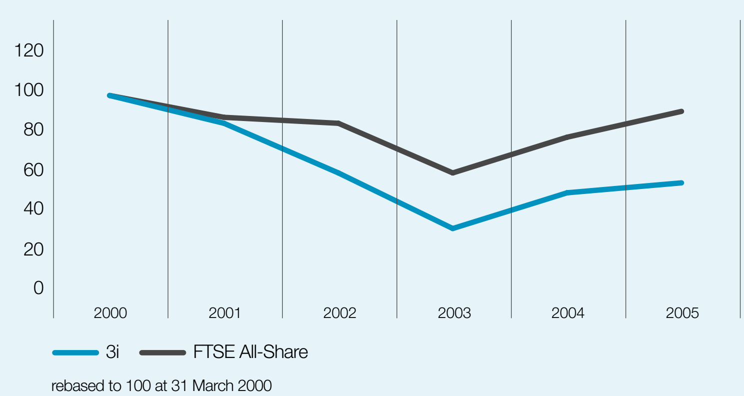
Assistance to the Committee Persons who materially assisted the Committee with advice on Directors’ remuneration in the year were: PricewaterhouseCoopers LLP (“PwC”), an external remuneration consultant appointed by the Committee; the Chairman of the Board, Baroness Hogg; following his appointment on 7 July 2004, the Chief Executive, Mr P E Yea; and until his retirement from the Board on 7 July 2004, the former Chief Executive, Mr B P Larcombe. Baroness Hogg, Mr B P Larcombe and Mr P E Yea did not advise the Committee in relation to their own remuneration. During the year, PwC provided the Group’s businesses with taxation, payroll and valuation advice, due diligence services, property services, and services of an employee on secondment.

Market background The Company operates within the private equity and venture capital sector and is a constituent of the FTSE 100 Index. 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. The private equity and venture capital market continues to be well funded and the ability of trained and experienced executives to gain substantial rewards in the industry remains. As a consequence, maintaining a remuneration structure to support the recruitment and retention of senior executives continues to be challenging. In addition to cash bonuses and share awards, it is market practice for investment executives in the private equity and venture capital market to be 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 background that the Committee has continued to implement the policies formulated last year to enable the Company to continue to attract, retain and motivate management of the quality required and thereby 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 with the interests of shareholders and investors in funds managed by the Group on behalf of third parties. The way in which this is achieved is by allowing investment executives to participate in carried interest arrangements and by encouraging the holding of the Company’s shares by its staff.

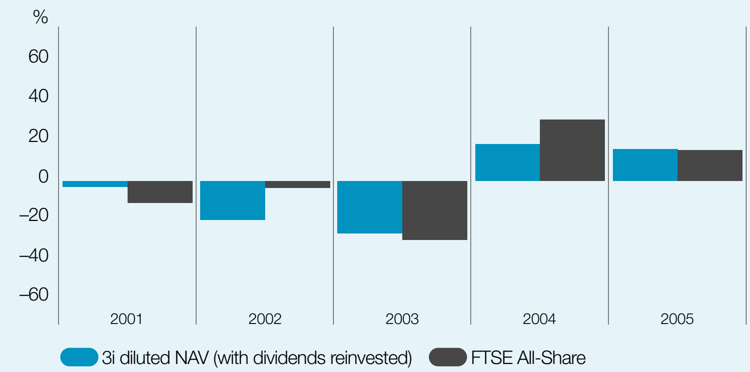
Performance graphs The left hand graph below compares the Company’s total shareholder return for the five financial years to 31 March 2005 with the total shareholder return of the FTSE All-Share Index. The Directors consider that since the Company invests in a broad range of industrial and commercial sectors, the FTSE All-Share Index is the most appropriate index against which to compare the Company’s performance, although as the Company is a constituent of the FTSE 100 Index, performance compared with that index is also relevant.

The right hand chart below compares percentage changes in the Company’s diluted net asset value per share over each of the last five financial years (with dividends reinvested) against the total shareholder return of the FTSE All-Share Index over the same periods. 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) for the years ended 31 March



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



Audit The tables in this report (including the notes thereto) on pages 42 to 47 have been audited by Ernst & Young LLP.

Directors’ remuneration policy

No major changes in remuneration structure have been decided by the Committee over the year. However, in the light of market evidence and consultation with shareholders, the Committee has decided, in respect of the coming year, to reduce the proportion of share options vesting if net asset value per share with dividends reinvested rises by RPI plus three percentage points per annum over the three year performance period from 50% to 30%. The Committee has also decided to increase the target bonus for the coming year for the Director responsible for Growth Capital investment from 90% to 100% of base salary.

Non-executive Directors The Company’s policy for the financial year ending 31 March 2006 (the “coming 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 are not eligible for bonuses, share options, long-term incentives, pensions or performance related remuneration. The Company does not currently expect its policy on non-executive Directors’ remuneration for subsequent financial years to change significantly. Non-executive Directors’ fees (other than those of the Chairman, which are determined by the Committee) are regularly reviewed and 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 £36,000 per annum, the annual fee for Committee membership was £2,000 and the annual fee for Committee Chairmanship was £7,500.

Executive Directors The Company's policy for the coming year in relation to executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executive Directors of the calibre required. The variable elements of each executive Director's remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) are intended to form a significant component of the executive Director's total remuneration package. In particular, the base 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 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 to the executive Directors which are competitive with other FTSE 100 companies and companies in the financial services sector. The Company will review its pension arrangements in the light of the Government's proposed legislative changes and will report on the outcome of this review in the 2006 Directors' remuneration report.

(a) Salaries 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 table below provides details of the percentage increases in average base salaries per annum for members of Executive Committee (including executive Directors) and other executive staff in the UK in the period from 31 March 2004 to 31 March 2005.

	% increase from 31 March 2004 to 31 March 2005
Executive Committee (including executive Directors)	2.61%
Other UK executive staff	5.63%

Chief Executive and Finance Director The Company's policy in the coming year in relation to the remuneration packages of the Chief Executive and Finance Director is to pay salaries and benefits comparable to those paid by other FTSE 100 companies of similar market capitalisation including financial sector companies. Salary supplements are paid to Mr P E Yea and Mr S P Ball to enable them personally to make additional pension provision.

Directors responsible for investment business The Company's policy in the coming year in relation to the remuneration packages of Directors with responsibility for investment business is to provide remuneration and other benefits comparable to those paid in the private equity and venture capital industry. In the coming year this policy will apply to Mr M J Queen who assumed responsibility for Growth Capital investment on 1 April 2005.

To ensure the Company's remuneration policies are competitive with arrangements in the private equity and venture capital industry, the Committee may offer executive Directors with responsibility for investment business the opportunity to participate in carried interest arrangements as approved by shareholders in 2004.

(b) Annual bonuses All employees, including executive Directors, are eligible for non-pensionable discretionary annual bonuses. The Committee determines target bonuses for each executive Director at the beginning of each year based on appropriate market comparators. These target bonuses are achievable if both corporate performance targets and personal performance targets are met. In the case of Directors with responsibility for investment business, the target bonus also depends on the objectives of the business units for which the Director is responsible being met and, consistent with its policy, is intended to be competitive with arrangements in the private equity and venture capital industry. Bonuses above target level will be granted only for outstanding performance. The maximum bonus achievable will be twice the target bonus. Any bonuses above 1.5 times target will be in the form of shares deferred for two years and the Committee may decide that a higher proportion of bonus should be paid in deferred shares.

The Committee retains discretion to make adjustments to bonus arrangements in appropriate circumstances.

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

– 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 private equity and 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.

During the year ended 31 March 2005, the target bonuses for the executive Directors were 90% of base salary. After reviewing the performance measures referred to above, the Committee awarded bonuses to executive Directors, in respect of the year, ranging from nil to 120% of their base salaries. Bonuses above 100% of base salary will be in the form of deferred shares, except in the case of Mr R W Perry who is to retire at the 2005 Annual General Meeting. The Committee has set target bonuses for the year to 31 March 2006 for the Chief Executive and Finance Director at 90% of base salary, the same as last year, and for the executive Director responsible for Growth Capital investment at 100% of base salary.

(c) Long-term incentives The Committee determines the levels of long-term incentives and carried interest to be granted to executive Directors. In the coming year long-term incentive arrangements for executive Directors are expected to consist of share options and performance share awards under The 3i Group Discretionary Share Plan ("the Discretionary Share Plan"). Executive Directors with responsibility for investment business will also be eligible to participate in carried interest arrangements as approved by shareholders in 2004.

The Discretionary Share Plan The Company operates a shareholder approved executive share plan, which conforms with the Association of British Insurers' guidelines on dilution limits. Awards under this plan are not pensionable. The level of annual awards is reviewed each year taking into account market practice, an assessment of individual performance and the specific circumstances facing the Company. The maximum annual level of award is six times salary if granted in share options or its equivalent fair value in performance shares. During the year, a performance share was calculated as having a fair value of 1.75 times the value of a share option. The relative fair values of these awards are kept under review by the Committee. Based on the advice of the Committee's independent consultant and on the performance conditions proposed to be attached to performance shares and share options in respect of the coming year, a performance share has been calculated as having a fair value of 1.90 times the value of a share option. 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.

Details of the performance targets for options granted under the Discretionary Share Plan before 1 April 2005 are set out in note 3 on page 43. The Committee proposes to set a performance condition for share option awards to be made with respect to the coming year that would result in 30% of options vesting if net asset value per share with dividends reinvested 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 per annum. Between those two levels the options will vest on a pro rata basis. This performance condition will not be retested.

Carried interest plans At the Company's Annual General Meeting ("AGM") on 7 July 2004, shareholders approved the participation of executive Directors with responsibility for investment business in the carried interest plans established for the Group's investment executives. The Chief Executive and the Finance Director are not eligible to participate in these plans. Decisions in relation to the participation of an executive Director are taken by the Committee taking into account market practice and the investment responsibilities of the executive Director concerned. Individual executive Directors participate in carried interest plans through the allocation to them of a specified percentage of Capital Working. Capital Working in a particular carried interest plan, is the target carried interest rate multiplied by the aggregate amount invested by the Company (including funds under its management) in a specific pool of investments made over a specific period (usually two years) by the team of investment executives responsible for those investments. The target carried interest rate to be delivered through individual carried interest plans may vary but in no case will exceed 15% of the relevant Capital Working. Participation in the profits made on a pool of investments through the allocation of carried interest is dependent on the performance of the underlying investments as a whole and the satisfaction of a performance condition which is determined in advance by the Committee, in line with relevant market conditions at the time of award. Awards under these plans are not pensionable.

No awards were made to executive Directors during the year.

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

Directors' remuneration during the year

	Salary and fees £'000	(Note1) Salary supplements £'000	Total salary, fees and supplements £'000	(Note 2) Bonus £'000	(Note 3) Deferred share bonus £'000	(Note 4) Benefits in kind £'000	(Note 5) Pay in lieu of notice £'000	Total remuneration Year to 31 March 2005 £'000	Total remuneration Year to 31 March 2004 £'000
Executive Directors									
P E Yea (appointed 7 July 2004)	*449*	*147*	596	450	90	1		1,137	–
S P Ball (appointed 7 February 2005)	*59*	*9*	68	60				128	–
R W Perry	*344*		344	400		17		761	677
M J Queen	*402*		402	400	80	2		884	726
Non-executive Directors									
Baroness Hogg	*220*		220					220	220
O H J Stocken	*83*		83					83	75
Dr P Mihatsch (appointed 7 September 2004)	*21*		21					21	–
C J M Morin-Postel	*40*		40					40	34
F D Rosenkranz	*48*		48					48	37
Sir Robert Smith (appointed 7 September 2004)	*22*		22					22	–
F G Steingraber	*37*		37					37	30
Former Directors									
Dr J R Forrest (until 7 July 2004)	11		11					11	48
M M Gagen (until 23 August 2004)	127		127			4	194	325	687
B P Larcombe (until 7 July 2004)	162		162			1	274	437	1,131
Total	*2,025*	*156*	2,181	1,310	170	25	468	4,154	3,665

Notes

1 Mr P E Yea and Mr S P Ball's remuneration packages included salary supplements intended to enable them to make additional pension provision.
2 Bonuses relate to the year to 31 March 2005 and are expected to be paid in June 2005.
3 Deferred share bonus awards will be made over shares in the Company to the value shown, deferred for two years.
4 "Benefits in kind" comprised company car (Mr R W Perry) and health insurance (Mr P E Yea, Mr S P Ball, Mr R W Perry, Mr M J Queen, Mr B P Larcombe and Mr M M Gagen).
5 After ceasing to be a Director on 7 July 2004, Mr B P Larcombe remained an employee until 30 September 2004. During that period, in addition to the amount shown above, Mr B P Larcombe was paid salary and benefits totalling £136,843. During the year, Mr Gagen was paid the amount of £193,676 shown in the column headed "Pay in lieu of notice" in accordance with his employment contract, being a sum equal to his base salary for the period from 23 August 2004 to 31 March 2005. In addition, during the year and after 23 August 2004, Mr M M Gagen received benefits in kind amounting to £1,007.
6 During the year, whilst serving as Directors of the Company, executive Directors retained fees from outside directorships as follows: Mr P E Yea, £8,942 (Manchester United plc); Mr S P Ball, £5,808 (Leica Geosystems AG); Mr M J Queen, £8,375 (Northern Rock plc); and Mr B P Larcombe, £9,692 (Smith & Nephew plc).
7 Mr W J R Govett, a former Director, was paid £8,000 as a director of Gardens Pension Trustees Limited, one of the trustees of the 3i Group Pension Plan.

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 2004 (or appointment if later)	Granted during the year	Exercised during the year	Held at 31 March 2005 (or cessation if earlier)	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
P E Yea (appointed 7 July 2004)	2004	–	*314,410*	–	***314,410***	*5.73*		*21.07.07*	*20.07.14*
		–	*314,410*	–	***314,410***				
R W Perry	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*
	2004		*40,422*	–	***40,422***	*6.03*		23.06.07	*22.06.14*
		480,768	*40,422*		**521,190**				

Options to subscribe for shares (continued)

	Year of grant	Held at 1 April 2004 (or appointment if later)	Granted during the year	Exercised during the year	Held at 31 March 2005 (or cessation if earlier)	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
M J Queen	1994	4,000*#		4,000	**–**	2.72	6.295	22.06.97	21.06.04
	1995	1,800*		1,800	**–**	3.61	6.295	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_
	_2004_		_89,552_	–	_**89,552**_	_6.03_		_23.06.07_	_22.06.14_
		568,233	_89,552_	5,800	**651,985**				
B P Larcombe (until 7 July 2004)	1995	20,600		–	**20,600**	4.23		14.12.98	30.09.05
	1996	98,200		–	**98,200**	4.50		25.06.99	30.09.05
	1997	99,802		–	**99,802**	5.20		16.06.00	30.09.05
	1998	72,209		–	**72,209**	6.64		22.06.01	30.09.05
	_1999_	_45,654_		–	_**45,654**_	_7.28_		_06.07.02_	_30.09.05_
	_2000_	_25,272_		–	_**25,272**_	_13.75_		_28.06.03_	_30.09.05_
	_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_
		981,104	–	–	**981,104**				
M M Gagen (until 23 August 2004)	1994	5,000*		5,000	**–**	2.72	6.185	22.06.00	21.06.04
	1998	30,454		–	**30,454**	6.64		22.06.01	31.08.05
	_1999_	_9,006_		–	_**9,006**_	_7.28_		_06.07.02_	_31.08.05_
	_2000_	_24,106_		–	_**24,106**_	_13.56_		_03.07.03_	_31.08.05_
		68,566	–	5,000	**63,566**				

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.

Notes

1. Options granted in 1994 were granted under The 3i Executive Share Option Plan (the "1984 Plan") and were exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not exercisable before the sixth anniversary. These options were 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, was 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").
2. 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 the RPI plus 4%.
3. Options granted after 31 March 2001 were granted under 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. For options granted between 1 April 2001 and 31 March 2004, if 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. For options granted after 31 March 2004, there is no opportunity for the performance condition to be retested after the three year performance period.

The performance target applicable to options granted between 1 April 2001 and 31 March 2004 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 RPI	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%

The performance target applicable to options granted between 1 April 2004 and 31 March 2005 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 RPI	Percentage of the grant vesting
Below RPI + 3 percentage points	0%
At least RPI + 3 percentage points	50%
At levels of performance between RPI + 3 percentage points and RPI + 8 percentage points the grant will vest pro rata	
At least RPI + 8 percentage points	100%

Notes (continued)

4 These performance conditions are based on increases in net asset value per share so as to enable a significant proportion of executive Directors' potential remuneration to be linked to an increase in the assets per share of the Company. The intention has been to approximate to the performance conditions attached to carried interest schemes in the private equity and venture capital market whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The minimum and maximum targets for options were chosen as being appropriately demanding in the prevailing market conditions at the time. The Committee determines whether the performance conditions have been fulfilled on the basis of calculations which are independently reviewed by the Company's auditors. These performance conditions require net asset value per share at the beginning and end of the performance period to be calculated on a consistent basis using the same accounting policies. To the extent that accounting policies have altered over a performance period, the Company has the power to make appropriate adjustments to the calculations of net asset value per share to ensure that changes in accounting policies neither advantage nor disadvantage option holders.

5 Options granted to Mr R W Perry in 2003 were pro-rated on grant 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.

6 For US legal and regulatory reasons, in 2001 Mr M M Gagen was granted the 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) detailed below on the same terms and conditions as share options granted to other Directors in that year.

	Held at 1 April 2004	Granted during the period	Exercised during the period	Held at 23 August 2004	Exercise price £	Market price on date of exercise	Date from which exercisable	Expiry date
Executive Directors								
M M Gagen (until 23 August 2004)	114,000	–	–	114,000	10.00	–	09.08.04	08.08.11

On Mr M M Gagen ceasing to be an employee on 31 August 2004, the exercise period was altered so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date.

7 On Mr B P Larcombe ceasing to be an employee on 30 September 2004, the exercise periods of the options granted to him in 1995 to 2000 were altered in accordance with the rules of the 1994 Plan so as to expire on 30 September 2005 and the exercise periods of the options granted to him in 2001 to 2003 were altered in accordance with the rules of the Discretionary Share Plan so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date. On Mr M M Gagen ceasing to be an employee on 31 August 2004 the exercise periods of the options granted to him in 1998 to 2000 were altered in accordance with the rules of the 1994 Plan so as to expire on 31 August 2005.

8 The mid-market price of shares in the Company at 31 March 2005 was 671.5p and the range during the period 1 April 2004 to 31 March 2005 was 528p to 731p. The aggregate 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 46 and 47) was £318,380 (2004: £1,122,425). The amount attributable to the highest paid Director during the year was £nil (amount attributable to the highest paid Director (Mr B P Larcombe) in 2004: £239,729). 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.

9 The fair value of the share options granted during the year has been calculated as being 26% of the market value at the date of grant of the shares under option.

10 As at 31 March 2005 there were approximately 2.4 million shares available under the 5% dilution limit applicable to the Discretionary Share Plan arising from the guidelines issued by the Association of British Insurers and approximately 30 million shares available under the 10% dilution limit arising from those guidelines applicable to "all employee" plans. In addition, approximately 5 million unallocated shares were held in an employee trust and were available for awards under the Discretionary Share Plan.

Performance Share Awards 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. These conditions were 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 these conditions have been met based on calculations prepared by the Committee's remuneration consultant. The table below provides details of performance share awards held by the Directors who held office during the year.

	Held at 1 April 2004 (or appointment if later)	Granted during the year	Vested during the year	Held at 31 March 2005 (or cessation if earlier)	Market price on date of grant £	Date of vesting
Executive Directors						
P E Yea (appointed 7 July 2004)	–	179,663	–	179,663	5.73	21.07.07
	–	179,663	–	179,663		
R W Perry	26,408		–	26,408	5.56	24.06.06
		23,098	–	23,098	6.03	23.06.07
	26,408	23,098	–	49,506		
M J Queen	42,913		–	42,913	5.56	24.06.06
		89,552	–	89,552	6.03	23.06.07
	42,913	89,552	–	132,465		
B P Larcombe (until 7 July 2004)	75,264	–	–	75,264	5.56	24.06.06
	75,264	–	–	75,264		

Notes

1 Performance shares awarded to Mr R W Perry in 2003 were pro-rated on grant 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.

2 On Mr B P Larcombe ceasing to be an employee on 30 September 2004, 37,632 of the performance shares held by him were forfeited. The remaining 37,632 performance shares remain subject to the original performance condition.

3 The fair value of the performance shares awarded during the year has been calculated as being 46% of the market value of shares at the date of award.

Share Incentive Plan Eligible UK employees, including executive Directors, may participate in an Inland Revenue approved Share Incentive Plan intended to encourage employees to invest in the Company's shares and which accordingly is not subject to a performance condition. 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 (other than by reason of retirement) 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 2004 (or appointment if later) Partnership shares	Held at 1 April 2004 (or appointment if later) Matching shares	Held at 1 April 2004 (or appointment if later) Dividend shares	Held at 31 March 2005 (or cessation if earlier) Partnership shares	Held at 31 March 2005 (or cessation if earlier) Matching shares	Held at 31 March 2005 (or cessation if earlier) Dividend shares
Executive Directors						
P E Yea (appointed 7 July 2004)	–	–	–	92	184	–
R W Perry	545	1,090	33	785	1,570	78
M J Queen	529	1,058	31	769	1,538	74
B P Larcombe (until 7 July 2004)	545	1,090	33	606	1,212	33

Note Since 31 March 2005, Mr P E Yea and Mr R W Perry have each acquired a further 20 partnership shares and have been awarded a further 40 matching shares and Mr M J Queen has acquired a further 19 partnership shares and has been awarded a further 38 matching shares. During the year, shares were awarded at prices between 564.17p and 694p per share and with an average price of 625p 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, 99% of UK employees belonged. For members who joined the plan before 1 September 2002, the plan provides for a pension, subject to Inland Revenue limits, of two thirds of final pensionable 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. For members who joined the plan on or after 1 September 2002 (which include Mr P E Yea and Mr S P Ball) 33.3 years' service is required to accrue a pension of two thirds of final pensionable salary (limited to the Earnings Cap where this applies). The plan also provides death-in-service cover of four times final pensionable salary (limited to the Earnings Cap where this applies), 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 page 58.

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 per annum of pension by the actuaries. The value placed on £1 per annum 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 per annum of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

	(Note 1) Age at 31 March 2005	(Note 1) Complete years of pensionable service at 31 March 2005	(Note 1 and 2) Increase in accrued pension (excluding inflation) during the year to 31 March 2005 £'000 p.a.	(Note 1 and 3) Total accrued pension at 31 March 2005 £'000 p.a.	(Note 1) Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2005 £'000	(Note 1 and 2) Increase in accrued pension (including inflation) during the year to 31 March 2005 £'000 p.a.	(Note 4) Transfer value of the accrued benefits at 31 March 2005 £'000	(Note 5) Transfer value of the accrued benefits at 31 March 2004 £'000	Difference between transfer values at start and end of the accounting year, less Director's contribution £'000
Executive Directors									
P E Yea	50	0	1.5	1.5	3.8	1.5	18.1	–	14.3
S P Ball	44	0	0.3	0.3	0.9	0.3	3.1	–	2.3
R W Perry	59	19	16.7	181.0	7.8	21.7	4,076.7	3,283.9	785.1
M J Queen	43	17	22.8	184.6	8.8	27.7	1,613.7	1,331.4	273.5
B P Larcombe (until 7 July 2004)	51	30	(165.0)	263.5	5.9	(158.5)	6,085.2	5,274.5	804.8
M M Gagen (until 23 August 2004)	48	19	1.4	163.3	2.6	3.4	1,920.0	1,786.3	131.1

Notes

1 In the cases of Mr B P Larcombe and Mr M M Gagen, 30 September 2004 and 31 August 2004, respectively, being the dates that they left pensionable service.
2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60 except in the case of Mr B P Larcombe. For Mr B P Larcombe, the figure shown is the difference between the amount of immediate pension granted to him on his retirement and the amount of the deferred pension to which he would have been entitled if he had left on 31 March 2004. The pension is calculated including three months' service whilst not a Director.
3 The pensions shown, except for Mr B P Larcombe, are deferred pensions payable from age 60. Mr B P Larcombe's figure is the immediate pension granted on his retirement.
4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2005 (Actuarial Guidance Note GN11 (version 9.1)) and in the case of Mr B P Larcombe reflect the benefits due to be paid after 31 March 2005 only and therefore excludes actual benefits received.
5 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2004 (Actuarial Guidance Note GN11 (version 9.1)).
6 Additional voluntary contributions are excluded from the above table.
7 The pensions shown above become payable at a Normal Retirement Age of 60. Certain members have guaranteed early retirement rights in order to comply with EC sex equality requirements. In the figures given above, the value of these rights has been converted into extra deferred pension of equal value to these rights. On early retirement from active membership of the plan, there is a discretionary practice of calculating the early retirement pension by applying a reduction factor less than the standard factor, in accordance with Company policy. This is not available to deferred pensioners and no allowance for it is made in the calculations of cash equivalents for deferred pensioners under the plan.

Deferred pensions in excess of the guaranteed minimum pension ("GMP") are increased in the deferment period according to statutory requirements (subject to an annual minimum of 3% per annum on pension accrued prior to 1 July 2004 for those members who joined the plan before 7 February 1992). GMPs are increased at fixed rate revaluation with increases vesting at Normal Retirement Age. For members who joined the plan before 1 September 2002, pensions in respect of service before 1 July 2004 and in excess of the GMP increase each year in payment to match the increase in the RPI since the pension started (or 30 June 1989, if later), subject to an annual maximum of 7.5% per annum and a minimum of 3% per annum. Pensions for members who joined the plan after 1 September 2002 and pension in respect of service on or after 1 July 2004 for members who joined the plan before 1 September 2002, increase each year in payment to match the RPI subject to a maximum increase in any year of 7.5% and a minimum of 0%. On death in deferment or after retirement, a two-thirds pension is payable to the member's spouse. Dependants' pensions may be payable in the absence of a spouse's pension. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance of five years' pension.

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.

Mr P E Yea and Mr S P Ball have contracts of employment with 3i plc dated 27 July 2004 and 19 April 2005 respectively. Mr M J Queen and Mr R W Perry have contracts of employment with 3i plc dating from their first employment with the Group being 22 June 1987 and 1 July 1985. All of these contracts are terminable by 12 months' notice given by the Company or six months' notice given by the employee. Save for these notice periods the contracts have no unexpired terms. On termination of employment the Company can elect to give pay in lieu of notice. In the case of Mr Yea, the Company can also elect to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment.

Until 30 September 2004, Mr B P Larcombe had an employment contract with 3i plc dating from his first employment by the Group on 23 September 1974 which was terminable by 12 months' notice given by the Company or six months' notice given by Mr Larcombe. The contract contained no provision for compensation on early termination, save that the Company could elect to give pay in lieu of notice.

Until the cessation of his employment on 31 August 2004, Mr M M Gagen had an employment contract with 3i Corporation dated 12 July 2000. In line with US market practice this contract required him to give six months' notice. It could, however, be terminated by 3i Corporation without notice, although for termination without cause Mr Gagen was entitled to continue to receive his base salary for 12 months following the cessation of employment.

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.

Historic awards This section of the Directors' remuneration report gives details of historic awards held by Directors under the Management Equity Investment Plan and the US carried interest plans.

Deferred share bonuses under the Management Equity Investment Plan Under the Management Equity Investment Plan, until 31 March 2001 executives could be awarded 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 being granted 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 2004	Granted during the year	Exercised during the year	Held at 31 March 2005 (or cessation if earlier)	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
R W Perry	1998	6,787*	–	–	6,787	6.63		15.06.01	14.06.05
	2000	5,819	–	–	5,819	Nil		28.06.03	27.06.07
	2001	3,600	–	–	3,600	Nil		09.08.04	08.08.08
		16,206	–	–	16,206				
M J Queen	1998	8,144	–	–	8,144	6.63		15.06.01	14.06.05
	1999	8,333	–	8,333	–	Nil	5.725	23.07.02	22.07.06
	2000	6,668	–	6,668	–	Nil	5.725	28.06.03	27.06.07
	2001	4,000	–	4,000	–	Nil	5.725	09.08.04	08.08.08
		27,145	–	19,001	8,144				
B P Larcombe (until 7 July 2004)	1998	12,443	–	–	12,443	6.63		15.06.01	14.06.05
	1999	13,681	–	–	13,681	Nil		23.07.02	30.09.05
	2000	9,699	–	–	9,699	Nil		28.06.03	30.09.05
	2001	6,400	–	–	6,400	Nil		09.08.04	30.09.05
		42,223	–	–	42,223				
M M Gagen (until 23 August 2004)	1998	9,049	–	–	9,049	6.63		15.06.01	14.06.05
		9,049	–	–	9,049				

* Awarded before appointment as a Director.

Note On Mr B P Larcombe ceasing to be an employee on 30 September 2004, the expiry dates of the awards made in 1999, 2000 and 2001 were altered so as to expire on 30 September 2005.

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

	Year of grant	(Note 1) Held at 1 April 2004	Granted during the year	Exercised during the year	Held at 31 March 2005 (or cessation if earlier)	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Directors									
R W Perry	1999	543*	–	–	543	Nil		23.07.04	22.07.06
	2000	21,054	–	–	21,054	Nil		28.06.05	27.06.07
		21,597	–	–	21,597				
M J Queen	1999	30,243	–	30,243	–	Nil	5.725	23.07.04	22.07.06
	2000	25,776	–	–	25,776	Nil		28.06.05	27.06.07
		56,019	–	30,243	25,776				
B P Larcombe (until 7 July 2004)	1998	7,682	–	–	7,682	6.63		15.06.03	14.06.05
	1999	8,213	–	–	8,213	Nil		23.07.04	30.09.05
	2000	51,518	–	–	51,518	Nil		28.06.05	30.09.05
		67,413	–	–	67,413				
M M Gagen (until 23 August 2004)	1998	1,652	–	–	1,652	6.63		15.06.03	14.06.05
	1999	24,665	–	–	24,665	Nil		23.07.04	31.08.05
	2000	30,090	–	–	30,090	Nil		28.06.05	31.11.04
		56,407	–	–	56,407				

* Awarded before appointment as a Director.

Notes

1 The table details awards made in 1998 and 1999 to the extent that they vested in accordance with the performance condition described below. The 1998 awards vested as to 100% and the 1999 awards vested as to 64.6%. It has not yet been determined if and to what extent awards granted in 2000 will vest.

2 In accordance with the rules of the plan, Mr B P Larcombe is permitted, within 12 months of his ceasing to be an employee, to exercise the awards granted in 1998, 1999 and 2000 to the extent that the three year performance condition is satisfied and Mr M M Gagen is so permitted to exercise the awards granted in 1998 and 1999.

The performance condition provided no shares would vest unless the Company's total shareholder return over a three year performance period (based on a six month average share price before the beginning and end of the period) was equal to or exceeded the compounded annual increase in the RPI over the period + 6% per annum. If this minimum return level was achieved, 35% of the shares would vest and all shares would vest if the return was equal to or exceeded RPI + 20% per annum. At performance between these levels, a proportion of shares would vest. If the minimum performance condition was not achieved in the three year performance period, the performance period was extended up to a maximum period of seven years from the same base year. The Committee decided a performance condition linked to shareholder return was in shareholders' interests and by linking the condition to RPI inflationary increases were discounted. The minimum and the maximum targets, 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 Ernst & Young LLP.

Awards under the US carried interest plans From 2002 to 2004, Mr M M Gagen (who was based in and responsible for the Group's US business) was allocated points under the US carried interest plans. The plans operate on the basis of annual "vintages" of investments 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.

	Points as at 1 April 2004	Accrued value of points as at 1 April 2004	Points allocated during the period to 23 August 2004	Payments received during the period to 23 August 2004	Points as at 23 August 2004	Accrued value of points as at 23 August 2004
Executive Director						
M M Gagen (until 23 August 2004)	115 (2000 Vintage)	£nil	–	–	115	£nil
	52 (2001 Vintage)	£nil	–	–	52	£nil
	111 (2002 Vintage)	£nil	–	–	111	£nil
	135 (2003 Vintage)	£nil	–	–	135	£nil
	135 (2004 Vintage)	£nil	–	–	135	£nil

Notes

Under the terms of the US carried interest plans, the following points held by Mr M M Gagen were redeemed for nil consideration after he ceased to be a Director: 115 points (2000 Vintage); 52 points (2001 Vintage); 10 points (2002 Vintage). The balance of the points held by Mr M M Gagen vested. As at 31 March 2005, the remaining points held by Mr M M Gagen in the 2002 and 2003 Vintages had a nil accrued value and the points held in the 2004 Vintage had an accrued value of £420,754.

By Order of the Board

F D Rosenkranz
Chairman, Remuneration Committee

11 May 2005

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

We have audited the Group's financial statements for the year ended 31 March 2005, 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 50. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' 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. The Directors are also responsible for preparing the Directors' remuneration report.

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 Directors' 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 35 to 39 reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 Financial highlights, 3i at a glance, Our business lines, Chairman's statement, Chief Executive's statement, Operating and financial review, Corporate responsibility report, Board of Directors, Directors' report, unaudited part of the Directors' remuneration report, Principal subsidiary undertakings and joint ventures, Portfolio valuation methodology, Ten largest investments, Forty other large investments, New investment analysis, Portfolio analysis, Realisations analysis and Funds under management. 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 Directors' 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 Directors' 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 Directors' 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 2005 and of the profit and total return of the Group for the year then ended; and the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

London

11 May 2005

Consolidated statement of total return

for the year to 31 March 2005

	Notes	Revenue 2005 £m	Capital 2005 £m	Total 2005 £m	Revenue 2004 (as restated)* £m	Capital 2004 (as restated)* £m	Total 2004 (as restated)* £m
Capital profits							
Realised profits on disposal of investments	2		**260**	**260**		228	228
Unrealised profits on revaluation of investments	3		**270**	**270**		336	336
			530	**530**		564	564
Carried interest and investment performance plans	4		**(66)**	**(66)**		(40)	(40)
			464	**464**		524	524
Total operating income before interest payable	1	**290**	**18**	**308**	262	5	267
Interest payable	7	**(57)**	**(25)**	**(82)**	(51)	(42)	(93)
		233	**457**	**690**	211	487	698
Administrative expenses	10	**(78)**	**(94)**	**(172)**	(72)	(91)	(163)
Other finance income/(costs) on pension plan	12	**1**	**–**	**1**	(3)	–	(3)
Actuarial (losses) on pension plan	12	**–**	**(1)**	**(1)**	–	(4)	(4)
Return before tax and currency translation adjustment	1	**156**	**362**	**518**	136	392	528
Tax	14	**(22)**	**19**	**(3)**	(29)	25	(4)
Return for the year before currency translation adjustment		**134**	**381**	**515**	107	417	524
Currency translation adjustment		**(1)**	**(2)**	**(3)**	24	(24)	–
Total return		**133**	**379**	**512**	131	393	524
Total return per share							
Basic (pence)		**22.1p**	**62.8p**	**84.9p**	21.8p	65.2p	87.0p
Diluted (pence)		**21.3p**	**60.7p**	**82.0p**	21.2p	63.8p	85.0p

The cumulative effects of the prior year adjustments are explained in note 42.

Reconciliation of movement in shareholders' funds

	2005 £m	2004 (as restated)* £m
Opening balance	**3,395**	2,936
Prior year adjustment	**(165)**	(147)
Opening balance as restated	**3,230**	2,789
Revenue return	**133**	131
Capital return	**379**	393
Total return	**512**	524
Dividends	**(88)**	(84)
Proceeds of issues of shares	**5**	12
Own shares	**(22)**	(11)
Movement in the year	**407**	441
Closing balance	**3,637**	3,230

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

Consolidated revenue statement

for the year to 31 March 2005

	Notes	2005 £m	2004 (as restated)* £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	**94**	84
Fixed rate dividends	5	**7**	8
		101	92
Other interest receivable and similar income	6	**46**	33
		147	125
Interest payable	7	**(57)**	(51)
Net interest income		**90**	74
Dividend income from equity shares	8	**104**	94
Share of net (losses) of joint ventures		**–**	(1)
Fees receivable	9	**39**	43
Other operating income		**–**	1
Total operating income		**233**	211
Administrative expenses and depreciation	10	**(78)**	(72)
Other finance income/(costs) on pension plan	12	**1**	(3)
Profit on ordinary activities before tax	13	**156**	136
Tax on profit on ordinary activities	14	**(22)**	(29)
Profit for the year		**134**	107
Dividends			
Interim	16	**(32)**	(31)
Final	16	**(56)**	(53)
Profit retained for the year		**46**	23
Earnings per share			
Basic (pence)	17	**22.2p**	17.8p
Diluted (pence)	17	**21.4p**	17.3p

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

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 2005

Assets	Notes	2005 £m	2005 £m	2004 (as restated)* £m	2004 (as restated)* £m
Treasury bills and other eligible bills			**1**		1
Loans and advances to banks	19		**1,019**		534
Debt securities held for treasury purposes	20		**179**		284
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	21	**1,293**		1,312	
Fixed income shares	21	**107**		150	
		1,400		1,462	
Equity shares					
Listed	21	**179**		225	
Unlisted	21	**2,722**		2,639	
		2,901		2,864	
			4,301		4,326
Interests in joint ventures	22				
Share of gross assets		**48**		80	
Share of gross liabilities		**(2)**		(53)	
			46		27
Tangible fixed assets	24		**39**		40
Other assets	25		**54**		53
Prepayments and accrued income	26		**62**		65
Total assets			**5,701**		5,330
Liabilities					
Deposits by banks	27		**208**		215
Debt securities in issue	28		**1,089**		1,128
Convertible bonds	29		**378**		367
Other liabilities	34		**59**		57
Accruals and deferred income	35		**244**		199
Provisions for liabilities and charges	36		**13**		6
Subordinated liabilities	37		**50**		45
Defined benefit liabilities	12		**23**		83
			2,064		2,100
Called up share capital	38		**307**		307
Share premium account	39		**364**		359
Capital redemption reserve	39		**1**		1
Capital reserve	39		**2,605**		2,226
Revenue reserve	39		**437**		392
Own shares	41		**(77)**		(55)
Equity shareholders' funds			**3,637**		3,230
Total liabilities			**5,701**		5,330
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		**21**		21
Commitments	49		**431**		333

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

Approved by the Board

Baroness Hogg
Philip Yea
Directors

11 May 2005

Parent company balance sheet

as at 31 March 2005

Assets	Notes	2005 £m	2005 £m	2004 (as restated)* £m	2004 (as restated)* £m
Loans and advances to banks	19		**894**		435
Debt securities held for treasury purposes	20		**179**		284
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	21	**1,190**		1,217	
Fixed income shares	21	**106**		148	
		1,296		1,365	
Equity shares					
Listed	21	**176**		219	
Unlisted	21	**2,449**		2,440	
		2,625		2,659	
			3,921		4,024
Interests in joint ventures	22		**14**		10
Shares in Group undertakings	23		**147**		47
Tangible fixed assets	24		**25**		25
Other assets	25		**47**		28
Prepayments and accrued income	26		**53**		44
Total assets			**5,280**		4,897
Liabilities					
Deposits by banks	27		**93**		113
Debt securities in issue	28		**888**		925
Convertible bonds	29		**378**		367
Other liabilities	34		**293**		256
Accruals and deferred income	35		**140**		76
Provisions for liabilities and charges	36		**–**		–
			1,792		1,737
Called up share capital	38		**307**		307
Share premium account	39		**364**		359
Capital redemption reserve	39		**1**		1
Capital reserve	39		**2,424**		2,085
Revenue reserve	39		**469**		463
Own shares	41		**(77)**		(55)
Equity shareholders' funds			**3,488**		3,160
Total liabilities			**5,280**		4,897
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		**21**		21
Commitments	49		**377**		271

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

Approved by the Board

Baroness Hogg
Philip Yea
Directors

11 May 2005

Consolidated cash flow statement

for the year to 31 March 2005

	Notes	2005 £m	2004 (as restated)* £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments		64	66
Other interest received and similar income		46	35
Dividends received from equity shares		103	93
Fees and other net cash receipts – revenue		38	41
– capital		18	5
Administrative expenses paid – revenue		(74)	(53)
– capital		(94)	(91)
Additional pension contributions		(60)	(13)
Net cash inflow from operating activities	43	41	83
Returns on investment and servicing of finance			
Interest paid on borrowings – revenue		(56)	(59)
– capital		(25)	(42)
Net cash flow from returns on investment and servicing of finance		(81)	(101)
Taxation paid		(1)	(2)
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans		(719)	(756)
Sale, repayment or redemption of equity shares, fixed income shares and loan investments		1,287	913
Purchase of tangible fixed assets		(4)	(2)
Sale of tangible fixed assets		1	1
Net cash flow from capital expenditure and financial investment		565	156
Acquisitions and disposals			
Investment in joint ventures		–	(25)
Divestment or repayment of interests in joint ventures		14	25
Net cash flows from acquisitions and disposals		14	–
Equity dividends paid		(85)	(83)
Management of liquid resources	47	(309)	(15)
Net cash flow before financing		144	38
Financing			
Debt due within one year	46	(67)	(232)
Debt due after more than one year	46	11	200
Issues of shares	44	5	12
Own shares		(25)	(20)
Net cash flow from financing		(76)	(40)
Increase/(decrease) in cash	46	68	(2)

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

Accounting policies

A Basis of preparation 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 39, 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.

Financial Reporting Standard 17 – Retirement Benefits ("FRS 17") The Group has adopted fully the reporting requirements of FRS 17, having previously complied with the transitional disclosure requirements of the standard and SSAP 24. The effect of adopting is explained in note 42.

Urgent Issues Task Force Abstract 38 – Accounting for ESOP Trusts ("UITF 38") The Group has also adopted UITF 38. This requires shares held by the 3i Group Employee Trust to be accounted for as a deduction in arriving at shareholders' funds rather than as an asset.

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 14.

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 Joint ventures and associated undertakings that are held as part of the investment portfolio of the Group are included in the accounts at the Directors' estimate of Fair Value. Dividends and interest from these investments are included in the revenue account as the Directors' believe that, while not complying with the Companies Act, this gives a true and fair view of the income. This treatment is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

A joint venture is an entity in which the Group holds an interest on a long-term basis and is jointly controlled by the Group and one or more venturers under a contractual agreement. Joint ventures through which the Group carries on its business and not held as part of the investment portfolio are accounted for using the gross equity method of accounting. 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, sales basis 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 Defined benefit pension scheme assets are measured at fair value, scheme liabilities are measured using the projected unit method and discounted at the current rate of return on high quality corporate bonds of equivalent currency and terms to the scheme liabilities. The current service cost and vested past service cost are charged to administrative expenses. The interest cost and the expected return on assets are included as other finance income or costs in the revenue reserve. Actuarial gains or losses are recognised in the capital reserve.

Contributions to defined contribution schemes are charged to administrative expenses.

International Financial Reporting Standards

In June 2002, the European Union adopted a regulation that requires, from 1 January 2005, European listed groups to prepare their consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

During 2003 the Group formed a project team and initiated a programme to change its accounting policies and systems to be IFRS compliant by 2005. These changes are nearing completion and it is our intention to restate the balance sheet at the transition date of 1 April 2004 and the results for the year to 31 March 2005 on an IFRS basis at the end of June, to allow the impact to be interpreted and understood.

IFRS differ in certain respects from the Group's accounting policies under UK GAAP. The summary below outlines the important differences for the Group in respect of recognition and measurement on the basis of extant IFRS that will be effective for the year to 31 March 2006, including revised IAS 32 and 39.

Dividends IFRS require dividends payable to be recorded in the period in which they are approved whereas under UK GAAP dividends are recorded in the period to which they relate.

Share-based payment Under UK GAAP, no compensation expense is recognised for Inland Revenue approved Save-as-you-earn share option schemes or for other share option schemes where the option has no intrinsic value (ie where at date of grant the exercise price equals the market value). IFRS require the fair value of share options at the date of grant to be recognised as an expense over the vesting period.

Financial instruments: financial liabilities IFRS require all financial liabilities to be measured at amortised cost except those held for trading and those that were designated as fair value through profit and loss on initial recognition. Under UK GAAP financial liabilities are recorded at amortised cost. In IFRS as adopted by the EU, the option to designate at fair value through profit and loss is not available.

Liabilities and equity Under UK GAAP, all issued shares are classified as shareholders' funds, and analysed between equity and non-equity interests. There is no concept of non-equity shares in IFRS. Instruments are classified between equity and liabilities in accordance with the substance of the contractual arrangements. Instruments such as convertible loans are analysed into their constituent liability and equity parts.

Transition IFRS 1 'First-time Adoption of International Financial Reporting Standards' (IFRS 1) will apply to the Group's financial statements. The standard requires an opening IFRS balance sheet to be prepared as at the date of transition to IFRS, being the beginning of the earliest comparative period presented under IFRS in its first IFRS financial statements (1 April 2004). Accounting policies must comply with each IFRS effective at the reporting date of the first IFRS financial statements, and applied throughout all periods presented.

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 and has one principal activity – the making of investments. The information shown below is based on the geographical location of investee companies.

Geographical areas	United Kingdom 2005 £m	Continental Europe 2005 £m	US 2005 £m	Asia 2005 £m	Total 2005 £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	62	38	–	1	101
Dividend income from equity shares	94	10	–	–	104
Fees receivable	28	27	–	2	57
Other income	42	4	–	–	46
Total operating income before interest payable	226	79	–	3	308
Revenue profit before tax	136	26	(5)	(1)	156
Capital profit before tax	260	113	4	(15)	362
Total return before tax	396	139	(1)	(16)	518
Net assets	2,840	592	127	78	3,637
Total assets	3,316	1,982	314	89	5,701

Geographical areas	United Kingdom 2004 (as restated)* £m	Continental Europe 2004 (as restated)* £m	US 2004 (as restated)* £m	Asia 2004 (as restated)* £m	Total 2004 (as restated)* £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	123	13	(1)	1	136
Capital profit before tax	257	131	(26)	30	392
Total return before tax	380	144	(27)	31	528
Net assets	2,240	848	84	58	3,230
Total assets	3,332	1,703	211	84	5,330

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

2 Realised profits on disposal of investments

	2005 £m	2004 £m
Net proceeds	1,302	923
Opening valuation of investments disposed	(1,011)	(653)
Investments written off	(37)	(50)
Other	6	8
Realised profits on disposal	260	228
Represented by:		
Listed	27	21
Unlisted	233	207
	260	228

Other includes £1 million (2004: £4 million) in respect of subordinated liabilities no longer repayable, as explained in note 37.

3 Unrealised profits on revaluation of investments

	2005 £m	2004 £m
Listed	14	50
Unlisted	256	286
	270	336

4 Carried interest and investment performance plans

	2005 £m	2004 £m
Charge for investment performance plans	67	34
Carried interest	(1)	6
	66	40

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.

	2005 £m	2004 £m
Charge for IPP – realised	30	8
– unrealised	37	26
	67	34

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 2005.

	2005 £m	2004 £m
Carried interest – realised	–	–
– unrealised	(1)	6
	(1)	6

Participants have 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 2005 £m	Non-UK 2005 £m	Total 2005 £m
Interest receivable on loan investments – unlisted	55	39	94
Fixed rate dividends – unlisted	7	–	7
	62	39	101

	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

Interest receivable of £36 million (2004: £28 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

	2005 £m	2004 £m
Interest receivable on money market assets, treasury debt securities and similar income	46	33

7 Interest payable

Interest payable has been allocated as follows:

	2005 £m	2004 £m
Revenue reserve	57	51
Capital reserve	25	42
	82	93

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 2005 £m	Non-UK 2005 £m	Total 2005 £m
Listed	2	1	3
Unlisted	92	9	101
	94	10	104

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

9 Fees receivable

Fees have been accounted for as follows:

	2005 £m	2004 £m
Revenue reserve	39	43
Capital reserve – fees receivable	27	20
– deal related costs	(9)	(15)
	57	48

Fees receivable and deal related costs that have been 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

	2005 £m	2004 £m
Staff costs		
Wages and salaries	82	77
Social security costs	10	11
Other pension costs	15	15
	107	103
Other administrative expenses	61	55
Depreciation	4	5
Total administrative expenses	172	163
Total administrative expenses have been allocated as follows:		
Revenue reserve	78	72
Capital reserve	94	91
	172	163

The average monthly number of employees during the year was 763 (2004: 833). 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 their Directors' remuneration report on pages 40 to 47.

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 £12 million (2004: £10 million) and other plans was £3 million (2004: £5 million). The Plan 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 Financial Reporting Standard 17 – Retirement Benefits ("FRS 17"), having previously complied with the transitional disclosure requirements of the standard and SSAP 24, the effect of adopting FRS 17 is explained in note 42.

The last full actuarial valuation at 30 June 2004 was updated to 31 March 2005 by an independent qualified actuary in accordance with FRS 17. The Plan's liabilities have been measured using the projected unit method. The valuation for FRS 17 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 2005.

The key FRS 17 assumptions used for the Plan were:

	2005	2004	2003
Price inflation	3.0%	2.9%	2.5%
Salary increases (excluding promotion)	4.5%	4.4%	4.0%
Pension increases	3.1%	3.0%	3.0%
Discount rate	5.4%	5.5%	5.6%

Following advice from the actuaries, no regular employer contributions were made during the period 1 July 1985 to 1 April 2002. Regular employer contributions recommenced on 1 April 2002. For the year to 31 March 2005 standard contributions were agreed to be 29.2% of members' pensionable salaries. Additional employer contributions were made in the year to 31 March 2005 of £60 million (2004: £13 million, 2003: £13 million and 2002: £13 million).

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, this will increase by 1% each year to a target of 5% of pensionable salary. Currently, the contributions are 3% of pensionable salary.

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.

During the year, the Board of the Company provided 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.

The assets of the Plan and their expected return were:

	Long-term rate of return expected at 31 March 2005	2005 Value £m	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
Equities	7.7%	205	7.9%	187	7.5%	144
Gilts	4.7%	162	4.7%	62	4.5%	42
Other	4.7%	–	4.6%	23	3.8%	27
		367		272		213
Present value of Plan liabilities		(390)		(355)		(303)
Net pension liability		(23)		(83)		(90)

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

12 Pension arrangements (continued)

The following amounts have been recognised in the total return:

	2005 £m	2004 £m
Revenue account		
Amount charged to administrative expenses		
Current service cost	(10)	(9)
Vested past service	(2)	(1)
Total administrative expenses	(12)	(10)
Amount charged to other finance costs		
Expected return on Plan assets	21	14
Interest on Plan liabilities	(20)	(17)
Net return	1	(3)
Revenue return	(11)	(13)
Capital account		
Difference between the expected and actual return on Plan assets	13	30
Experience gains/(losses) on Plan liabilities	17	(12)
Changes in assumptions underlying the present value of Plan liabilities	(31)	(22)
Actuarial (losses) recognised in total return	(1)	(4)
Total return	(12)	(17)

The movement in pension deficit is as follows:

	2005 £m	2004 £m
Opening balance	(83)	(90)
Current service cost	(10)	(9)
Past service cost	(2)	(1)
Contributions	72	24
Other financial income/(costs)	1	(3)
Actuarial (losses) recognised in capital reserve	(1)	(4)
Movement in the year	60	7
Closing balance	(23)	(83)

History of experience gains and losses:

	2005	2004	2003
Difference between the expected and actual return on Plan assets:			
Amount	£13m	£30m	£(76)m
Percentage of Plan assets (closing)	4%	11%	36%
Experience gains/(losses) on Plan liabilities:			
Amount	£17m	£(12)m	£(5)m
Percentage of present value of Plan liabilities (closing)	4%	3%	2%
Total amount recognised in the capital reserve:			
Amount	£(1)m	£(4)m	£(93)m
Percentage of present value of Plan liabilities (closing)	–	1%	31%

13 Profit on ordinary activities before tax

This is arrived at after charging:

	2005 £m	2004 £m
Depreciation on owned assets	3	4
Depreciation on hire purchase assets	1	1

Auditors' remuneration

The auditors received fees for the statutory audit of the Group of £1.0 million (2004: £0.8 million), which included £0.2 million (2004: £0.2 million) for the Company. Total fees paid by the Group to Ernst & Young LLP are analysed below:

	2005 £m	2004 £m
Audit services		
Statutory audit fee – UK	0.7	0.5
– overseas	0.3	0.3
Audit related regulatory reporting – UK	0.1	0.1
Total audit services	1.1	0.9
Further assurance services	0.1	0.1
Tax services (compliance and advisory services)	–	0.2
Other services:		
Investment due diligence	0.2	0.4
Secondment to the Group's investment business	–	0.1
Total other fees	0.3	0.8

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

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 £1.3 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.

14 Tax

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

	Revenue 2005 £m	Capital 2005 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	20	(20)
UK corporation tax at 30%	1	–
Less relief for foreign tax	(1)	–
Foreign tax	2	1
Adjustment in respect of previous periods	–	–
Current tax charge/(credit) for the year	22	(19)
Deferred tax	–	–
Charge/(credit) for the year	22	(19)

	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)

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% (2004: 30%), and the differences are explained below:

	Revenue 2005 £m	Capital 2005 £m
Return before tax	156	362
Return before tax multiplied by standard UK corporation tax rate of 30%	47	109
Effects of:		
Expenses not deductible for tax purposes	1	–
Short-term timing differences	(4)	–
Current period unutilised tax losses	2	–
Non-taxable UK dividend income	(31)	–
Repatriated profits of overseas group undertakings	7	–
Foreign tax	1	–
Foreign tax credits available for double tax relief	(1)	–
Capital profits not chargeable because of Investment Trust status	–	(128)
Current tax charge/(credit) for the year	22	(19)

14 Tax (continued)

	Revenue 2004 (as restated)* £m	Capital 2004 (as restated)* £m
Return before tax	136	392
Return before tax multiplied by standard UK corporation tax rate of 30%	41	118
Effects of:		
Expenses not deductible for tax purposes	–	–
Short-term timing differences	1	–
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)	–
Capital profits not chargeable because of Investment Trust status	–	(144)
Current tax charge/(credit) for the year	29	(26)

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

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.

15 Profit after tax
The amount dealt with in the revenue account of the Company is £100 million (2004: £79 million).

16 Dividends

	2005 £m	2004 £m
Interim paid 5.3p per share (2004: 5.1p per share paid)	**32**	31
Final proposed 9.3p per share (2004: 8.9p per share paid)	**56**	53
	88	84

17 Earnings and net assets per share

		2005	2004 (as restated)*
Revenue profit for the year		**£134m**	£107m
Weighted average number of shares	– basic	**603m**	602m
	– diluted	**628m**	619m
Earnings per share	– basic	**22.2p**	17.8p
	– diluted	**21.4p**	17.3p
Net assets		**£3,637m**	£3,230m
Number of shares	– basic	**602m**	604m
	– diluted	**603m**	604m
Net asset value per share	– basic	**604p**	535p
	– diluted	**603p**	535p

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

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.

18 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 70.
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.

19 Loans and advances to banks

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable on demand	**161**	94	**61**	50
Maturity of other loans and advances to banks				
Repayable:				
within three months	**748**	325	**723**	270
between three months and one year	**110**	115	**110**	115
	1,019	534	**894**	435

20 Debt securities held for treasury purposes

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable within one year	**179**	284	**179**	284

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

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Debt securities and fixed income shares				
Loan investments	**1,293**	1,312	**1,190**	1,217
Fixed income shares	**107**	150	**106**	148
	1,400	1,462	**1,296**	1,365
Equity shares				
Listed	**179**	225	**176**	219
Unlisted	**2,722**	2,639	**2,449**	2,440
	2,901	2,864	**2,625**	2,659
Total	**4,301**	4,326	**3,921**	4,024
Maturity of debt securities and fixed income shares				
Repayable within one year	**83**	93	**80**	89
Repayable after more than one year	**1,317**	1,369	**1,216**	1,276
	1,400	1,462	**1,296**	1,365

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares (continued)

	The Group Equity shares 2005 £m	The Group Loan investments 2005 £m	The Group Fixed income shares 2005 £m	The Group Total 2005 £m
Opening balances				
Cost	2,579	1,528	297	4,404
Unrealised appreciation	285	(216)	(147)	(78)
	2,864	1,312	150	4,326
Additions at cost	294	451	10	755
Disposals, repayments and write-offs	(476)	(403)	(84)	(963)
Transfers	36	(36)	–	–
Unrealised appreciation	150	(48)	31	133
Currency translation	33	17	–	50
31 March 2005	2,901	1,293	107	4,301
Represented by:				
Cost	2,466	1,557	223	4,246
Unrealised appreciation	435	(264)	(116)	55
	2,901	1,293	107	4,301
Listed				
UK	107	–	–	107
Non-UK	72	–	1	73
	179	–	1	180
Unlisted				
UK	1,294	770	82	2,146
Non-UK	1,428	523	24	1,975
	2,722	1,293	106	4,121

	The Company Equity shares 2005 £m	The Company Loan investments 2005 £m	The Company Fixed income shares 2005 £m	The Company Total 2005 £m
Opening balances				
Cost	2,361	1,412	294	4,067
Unrealised appreciation	298	(195)	(146)	(43)
	2,659	1,217	148	4,024
Additions at cost	249	398	12	659
Disposals, repayments and write-offs	(414)	(395)	(85)	(894)
Transfers	32	(32)	–	–
Transfers to other Group companies	(12)	(2)	–	(14)
Unrealised appreciation	86	(9)	31	108
Currency translation	25	13	–	38
31 March 2005	2,625	1,190	106	3,921
Represented by:				
Cost	2,241	1,394	221	3,856
Unrealised appreciation	384	(204)	(115)	65
	2,625	1,190	106	3,921
Listed				
UK	107	–	–	107
Non-UK	69	–	1	70
	176	–	1	177
Unlisted				
UK	1,292	768	81	2,141
Non-UK	1,157	422	24	1,603
	2,449	1,190	105	3,744

21 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 17 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 IVc LP	<0.01%
3i Europartners IVd LP	<0.01%
3i Europartners IVk LP	<0.01%

The proportion of total commitments shown above are those at both 31 March 2005 and 31 March 2004 except the commitments made to 3i Europartners IVc LP and 3i Europartners IVk 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 £4 million (2004: £5 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 £27 million (2004: £31 million) and distributions of £1 million (2004: £2 million) from this activity.

22 Interests in joint ventures

	The Group 2005 £m	The Company 2005 £m
Opening balances		
Cost	111	26
Share of post acquisition retained surpluses less losses	(9)	–
Unrealised appreciation	(75)	(16)
	27	10
Additions	14	–
Disposal and repayments	(10)	(4)
Share of net surplus less losses	(3)	–
Unrealised appreciation	13	8
Currency translation	5	–
31 March 2005	46	14
Represented by:		
Cost	121	22
Share of post acquisition retained surpluses less losses	(13)	–
Unrealised appreciation	(62)	(8)
	46	14

The additions to joint ventures were new loans to DIAB Intressenter AB. Disposal and repayments were mostly repayment of loans.

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 interests in its principal joint ventures, which are unlisted and outside the UK, are given on page 70.

23 Shares in Group undertakings

	The Company 2005 £m
Opening balance	
Cost	160
Provision	(113)
	47
Additions	75
Disposals	(16)
Reversal of provision	39
Currency translation	2
31 March 2005	147
Represented by:	
Cost	224
Provision	(77)
	147

Details of the principal subsidiary undertakings are given on page 70.

24 Tangible fixed assets

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Investment properties	6	5	–	–
Properties in use by the Group	25	26	25	25
Other fixed assets in use by the Group	8	9	–	–
	39	40	25	25

Properties	The Group Investment properties 2005 £m	The Company Investment properties 2005 £m	The Group Properties in use by the Group 2005 £m	The Company Properties in use by the Group 2005 £m
Opening balances				
Cost	5	–	22	21
Unrealised appreciation	–	–	4	4
	5	–	26	25
Movement in unrealised appreciation	1	–	(1)	–
31 March 2005	6	–	25	25
Represented by:				
Cost	5	–	22	21
Unrealised appreciation	1	–	3	4
	6	–	25	25
Freehold	6	–	8	8
Leasehold – 50 years and over	–	–	17	17
	6	–	25	25

24 Tangible fixed assets (continued)

Other fixed assets in use by the Group	The Group Office equipment 2005 £m	The Group Hire purchase motor vehicles 2005 £m	The Group Total 2005 £m
Opening cost	56	3	59
Additions	3	1	4
Disposals	(10)	(2)	(12)
Cost at 31 March 2005	49	2	51
Opening depreciation	49	1	50
Charge for year	3	1	4
Disposals	(10)	(1)	(11)
Depreciation at 31 March 2005	42	1	43
Book amount at 31 March 2005	7	1	8
Book amount at 31 March 2004	7	2	9

Obligations	The Group Operating leases 2005 £m	The Group Operating leases 2004 £m	The Company Hire purchase contracts 2005 £m	The Company Hire purchase contracts 2004 £m
Within one year	–	1	–	–
Between one year and two years	1	–	–	–
Between two years and five years	2	3	1	2
After five years	3	3	–	–
	6	7	1	2

The obligations under operating leases represent the obligations payable in the year to 31 March 2006 banded as to when the leases expire. The hire purchase obligations are the total amount payable under these contracts.

25 Other assets

	The Group 2005 £m	The Group 2004 (as restated)* £m	The Company 2005 £m	The Company 2004 (as restated)* £m
Tax recoverable	3	3	–	–
Other debtors	51	50	21	7
Amounts due from Group undertakings			26	21
	54	53	47	28

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

26 Prepayments and accrued income

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Interest receivable	62	65	53	44

27 Deposits by banks

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
With agreed maturity dates or periods of notice	**208**	215	**93**	113
Maturity of deposits with agreed maturity dates or periods of notice				
Repayable:				
within three months	**17**	41	**17**	41
between one year and two years	**151**	–	**76**	–
between two years and five years	**40**	174	**–**	72
	208	215	**93**	113

28 Debt securities in issue

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Bonds and notes	**1,005**	1,008	**804**	805
Other debt securities in issue	**84**	120	**84**	120
	1,089	1,128	**888**	925

Bonds and notes	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Variable rate				
Unsecured loan notes				
Various maturities – 2007-2010	**1**	2	**–**	1
Total variable rate	**1**	2	**–**	1

Notes issued under the £2,000 million Note Issuance Programme	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £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	**–**	–
Total fixed rate	**800**	802	**800**	800
Variable rate				
Public issues				
3i Holdings plc – matures 2007	**200**	200		
Private placings	**4**	4	**4**	4
Total variable rate	**204**	204	**4**	4
Total bonds and notes	**1,005**	1,008	**804**	805

28 Debt securities in issue (continued)

Maturity of bonds and notes	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable:				
on demand or within one year	**4**	2	**4**	–
between one year and two years	**–**	4	**–**	4
between two years and five years	**400**	401	**200**	201
after five years	**601**	601	**600**	600
	1,005	1,008	**804**	805
Maturity of other debt securities in issue				
Repayable:				
within three months	**81**	106	**81**	106
between three months and one year	**–**	11	**–**	11
between one year and two years	**3**	1	**3**	1
between two years and five years	**–**	2	**–**	2
	84	120	**84**	120

The Group had the following committed multi-currency facilities at 31 March 2005:

Negotiated	Facility	Drawn	Drawn margin (over LIBOR)	Undrawn commitment fee
June 2001 (matures 21 June 2006)	**£360m**	**£151m**	**0.1750%**	**0.0875%**
November 2004 (matures 29 October 2008)	**€595m**	**£40m**	**0.2000%**	**0.1000%**

The drawn margin on the €595 million facility increases to 0.2250% if the drawn amount is between 33% and 66% of the facility, and to 0.2500% if the drawn amount is greater than 66% of the facility.

29 Convertible bonds

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable between two years and five years	**378**	367	**378**	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 cash and 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 less the cash settled amount 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 2005 was £381 million.

30 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 2005 was:

Assets	Not more than three months 2005 £m	More than three months but not more than six months 2005 £m	More than six months but not more than one year 2005 £m	More than one year but not more than five years 2005 £m	More than five years 2005 £m	Non-interest bearing 2005 £m	Total 2005 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	909	110	–	–	–	–	1,019
Debt securities held for treasury purposes	154	25	–	–	–	–	179
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	262	41	29	256	705	–	1,293
Fixed income shares	–	–	–	–	–	107	107
Equity shares	–	–	–	–	–	2,901	2,901
Other assets	–	–	–	–	–	201	201
	1,325	176	29	256	706	3,209	5,701
Liabilities							
Deposits by banks	208	–	–	–	–	–	208
Debt securities in issue	(142)	(37)	27	349	892	–	1,089
Convertible bonds	–	–	–	378	–	–	378
Other liabilities	–	–	–	–	–	339	339
Subordinated liabilities	–	–	–	–	50	–	50
Shareholders' funds	–	–	–	–	–	3,637	3,637
	66	(37)	27	727	942	3,976	5,701
Interest rate sensitivity gap	1,259	213	2	(471)	(236)	(767)	–
Cumulative gap	1,259	1,472	1,474	1,003	767	–	–

Assets	Not more than three months 2004 (as restated)* £m	More than three months but not more than six months 2004 (as restated)* £m	More than six months but not more than one year 2004 (as restated)* £m	More than one year but not more than five years 2004 (as restated)* £m	More than five years 2004 (as restated)* £m	Non-interest bearing 2004 (as restated)* £m	Total 2004 (as restated)* £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	–	–	–	–	–	185	185
	1,087	144	109	301	490	3,199	5,330
Liabilities							
Deposits by banks	215	–	–	–	–	–	215
Debt securities in issue	(174)	(24)	21	388	917	–	1,128
Convertible bonds	–	–	–	367	–	–	367
Other liabilities	–	–	–	–	–	345	345
Subordinated liabilities	–	–	–	–	45	–	45
Shareholders' funds	–	–	–	–	–	3,230	3,230
	41	(24)	21	755	962	3,575	5,330
Interest rate sensitivity gap	1,046	168	88	(454)	(472)	(376)	–
Cumulative gap	1,046	1,214	1,302	848	376	–	–

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

31 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 pages 25 and 26. Currency swaps are used as part of applying that policy.

The Group's structural currency exposures at 31 March 2005 were as follows:

Currency	Variable rate loan investments 2005 £m	Fixed rate loan investments 2005 £m	Other investment assets 2005 £m	Other net assets before borrowings 2005 £m	Short-term variable rate borrowings 2005 £m	Other variable rate borrowings 2005 £m	Fixed rate borrowings 2005 £m	Net assets 2005 £m
Sterling	198	478	1,360	852	717	215	(1,196)	2,624
Euro	75	291	930	115	(448)	93	(583)	473
US dollar	13	83	396	32	(146)	–	–	378
Swiss franc	–	50	93	2	(41)	–	–	104
Swedish krona	1	89	233	7	(126)	(151)	–	53
Other	–	15	48	1	(53)	–	(6)	5
Subtotal	89	528	1,700	157	(814)	(58)	(589)	1,013
Total	287	1,006	3,060	1,009	(97)	157	(1,785)	3,637

Currency	Variable rate loan investments 2004 (as restated)* £m	Fixed rate loan investments 2004 (as restated)* £m	Other investment assets 2004 (as restated)* £m	Other net assets before borrowings 2004 (as restated)* £m	Short-term variable rate borrowings 2004 (as restated)* £m	Other variable rate borrowings 2004 (as restated)* £m	Fixed rate borrowings 2004 (as restated)* £m	Net assets 2004 (as restated)* £m
Sterling	341	429	1,622	556	60	223	(1,132)	2,099
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	627	(154)	139	(1,740)	3,230

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

32 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.

33 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 shares 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 2005 was £1,440 million (2004: £1,424 million), which compares with a book amount of £1,379 million (2004: £1,367 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.

33 Fair value of financial assets and financial liabilities (continued)

The fair values and book values at 31 March 2005 of the swaps and other foreign exchange contracts were:

	Fair value 2005 £m	Fair value 2004 £m	Book value 2005 £m	Book value 2004 £m
Interest rate swaps	(36)	(19)	–	1
Currency swaps	(6)	(8)	–	–
Other foreign exchange contracts	16	–	–	–
	(26)	(27)	–	1

All swaps held at 31 March 2005 mature before 31 March 2041.

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

	2005 £m	2004 £m
Fixed rate to variable rate	430	507
Variable rate to fixed rate	917	1,032
Variable rate to variable rate	170	170
Fixed rate to fixed rate	70	70
Included in the above are currency swaps amounting to	68	109

The principal outstanding on other foreign exchange contracts was £825 million.

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

34 Other liabilities

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Obligations under hire purchase contracts	1	2	–	–
Proposed dividend	56	53	56	53
Taxation payable	2	2	–	–
Amounts due to Group undertakings			237	203
	59	57	293	256

The amounts due to Group undertakings include £141 million (2004: £141 million) due after more than one year.

35 Accruals and deferred income

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Interest payable	33	33	26	25
Other accruals	211	166	114	51
	244	199	140	76

36 Provisions for liabilities and charges

	Property 2005 £m	Cost of organisational changes 2005 £m	Redundancy 2005 £m	Deferred tax 2005 £m	Total 2005 £m
Opening balance	2	3	–	1	6
Charge for year	5	–	7	–	12
Utilised in year	(1)	(3)	(1)	–	(5)
Movement for the year	4	(3)	6	–	7
31 March 2005	6	–	6	1	13

The provision for the cost of organisational changes related to organisational changes and staff reductions announced in the two years to 31 March 2003. This is now fully utilised. The provision for redundancy relates to staff reductions announced in the year to 31 March 2005.

36 Provisions for liabilities and charges (continued)

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.

Deferred tax

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Unrealised appreciation less expected losses	1	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.

37 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.

38 Called up share capital

	The Company 2005 Number	The Company 2005 £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	613,479,159	307
Allotted on exercise of options under The 3i Executive Share Option Plan and The 3i Group 1994 Executive Share Option Plan at between 272p and 664p per share	548,881	–
Allotted on exercise of options under The 3i Group Sharesave Scheme at 467p per share	155,722	–
Allotted under The 3i Group Share Incentive Plan at between 564p and 694p per share	225,405	–
Movement for the year	930,008	–
31 March 2005	614,409,167	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.

38 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 2005	24,943,522	2005 to 2014	361p to 1375p
31 March 2004	22,919,966	2004 to 2013	272p to 1375p

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

	31 March 2005 (or date of cessation if earlier)	31 March 2004 (or date of appointment if later)	31 March 2005 (or date of cessation if earlier) Conditional*	31 March 2004 (or date of appointment if later) Conditional*
Baroness Hogg	17,355	12,355	–	–
Dr J R Forrest (until 7/7/04)	1,500	1,500	–	–
P Mihatsch (appointed 7/9/04)	–	–	–	–
C J M Morin-Postel	2,000	2,000	–	–
F D Rosenkranz	30,000	30,000	–	–
R H Smith (appointed 7/9/04)	4,200	4,200	–	–
F G Steingraber	–	–	–	–
O H J Stocken	12,825	12,582	–	–
P E Yea (appointed 7/7/04)	281,611	100,500	–	–
B P Larcombe (until 7/7/04)	836,573	836,390	42,223	42,223
S P Ball (appointed 7/2/05)	–	–	–	–
M M Gagen (until 23/8/04)	91,055	91,055	9,049	9,049
R W Perry	87,488	63,625	16,206	16,206
M J Queen	319,191	173,832	8,144	27,145

* Represents conditional rights to acquire shares pursuant to deferred share bonus awards granted under the Management Equity Investment Plan, described on page 46.

The share interests shown above for each of Mr B P Larcombe, Mr R W Perry, Mr M J Queen and Mr P E Yea include performance share awards which are subject to forfeiture and are detailed in the table on page 44.

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 47. 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 shares held by the trust. The trust held 9,888,368 shares at 1 April 2004, 9,530,911 shares as at 7 July 2004, 8,930,140 shares as at 7 September 2004, 12,522,519 shares as at 7 February 2005 and 12,496,297 shares as at 31 March 2005. 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 Director's remuneration report on page 42 and 43.

Since 31 March 2005, there have been changes in the Directors' interests in shares. As at 3 May 2005, each of these Directors were beneficially interested in the following number of additional shares: Mr P E Yea (60), Mr R W Perry (60) and Mr M J Queen (57). In addition, as at that date, the number of shares held by The 3i Group Employee Trust was 12,496,297.

39 Reserves

	The Group Revenue 2005 £m	The Group Share premium 2005 £m	The Group Capital redemption 2005 £m	The Group Capital 2005 £m
Opening balances	391	359	1	2,337
Prior year adjustment	1	–	–	(111)
Opening balances as restated	392	359	1	2,226
Retained revenue for the year	46			
Realised profits on disposal of investments				260
Change in value of retained investments				270
Carried interest and investment performance plans				(66)
Fees receivable allocated to capital reserve				18
Interest payable allocated to capital reserve				(25)
Administrative expenses allocated to capital reserve				(94)
Actuarial gains/(losses) on pension plan				(1)
Tax on capital items				19
Increase in respect of shares issued		5		
Currency translation adjustment	(1)			(2)
Movement for the year	45	5	–	379
31 March 2005	437	364	1	2,605
The balance on the capital reserve represents:				
Realised profits				2,688
Unrealised appreciation				(83)
				2,605

	The Company Revenue 2005 £m	The Company Share premium 2005 £m	The Company Capital redemption 2005 £m	The Company Capital 2005 £m
Opening balances	463	359	1	2,085
Retained revenue for the year	12			
Realised profits on disposal of investments				291
Change in value of retained investments				223
Carried interest and investment performance plans				(66)
Interest payable allocated to capital reserve				(9)
Administrative expenses allocated to capital reserve				(42)
Capital contribution to subsidiary undertaking				(60)
Increase in respect of shares issued		5		
Currency translation adjustment	(6)			2
Movement for the year	6	5	–	339
31 March 2005	469	364	1	2,424
The balance on the capital reserve represents:				
Realised profits				2,547
Unrealised appreciation				(123)
				2,424

39 Reserves (continued)

	The Company £m	Subsidiary undertakings £m	Joint ventures £m	Total £m
Retained profits				
31 March 2005				
Revenue and realised capital profits	**3,016**	**122**	**(13)**	**3,125**
31 March 2004 (as restated)*				
Revenue and realised capital profits	2,776	81	(9)	2,848

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

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

40 Unrealised appreciation

Unrealised appreciation represents the difference between the original cost of investments and their carrying value, less charges.

	2005 £m	2004 £m
Opening balance after tax	**(230)**	(752)
Value (surplus)/deficit realised	**(265)**	66
Value deficit written back on realisation	**178**	152
Change in value surplus	**270**	336
Carried interest	**(36)**	(32)
Movement for the year	**147**	522
Closing balance after tax	**(83)**	(230)

41 Own shares

	2005 £m
Opening cost	**55**
Additions	**25**
Disposals	**(3)**
31 March 2005	**77**

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 2005 was £84 million (2004: £62 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.

42 Restatement of prior years

The effect of adopting FRS 17 and UITF 38 is set out on the following table:

Total return	Other financial income/(costs) on pension plan 2004 £m	Actuarial (losses) on pension plan 2004 £m	Total return 2004 £m
Previously reported	–	–	531
Adoption of FRS 17	(3)	(4)	(7)
As restated	(3)	(4)	524

	Assets		Liabilities	Shareholders' funds		
Balance sheet	Own shares 2004 £m	Other assets 2004 £m	Defined benefit liabilities 2004 £m	Capital reserve 2004 £m	Revenue reserve 2004 £m	Own shares 2004 £m
Previously reported	55	80	–	2,337	391	–
Adoption of FRS 17	–	(27)	83	(111)	1	–
Adoption of UITF 38	(55)	–	–	–	–	(55)
As restated	–	53	83	2,226	392	(55)

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

	2005 £m	2004 (as restated)* £m
Revenue profit before tax	**156**	136
Fees receivable and deal-related costs accounted for in the capital reserve	**18**	5
Administrative expenses allocated to the capital reserve	**(94)**	(91)
	80	50
Interest payable – revenue	**57**	51
	137	101
Depreciation of equipment and vehicles	**4**	5
Tax on investment income included within income from overseas companies	**(1)**	(1)
Interest received by way of loan notes	**(36)**	(28)
Additional pension contributions	**(60)**	(13)
Movement in prepayments and accrued income	**8**	3
Movement in accruals and deferred income	**(18)**	17
Movement in provisions for liabilities and charges	**7**	(2)
Reversal of losses of joint ventures less distribution received	**–**	1
Net cash inflow from operating activities	**41**	83

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

44 Analysis of changes in financing during the year

	Share capital and share premium 2005 £m	Deposits and debt securities repayable after more than one year 2005 £m	Share capital and share premium 2004 £m	Deposits and debt securities repayable after more than one year 2004 £m
Opening balance	**666**	**1,550**	654	1,372
Exchange movements	**–**	**21**	–	(16)
Cash inflows from financing	**5**	**40**	12	367
Cash outflows from financing	**–**	**(32)**	–	(168)
Non-cash movements	**–**	**(6)**	–	(5)
Movement for the year	**5**	**23**	12	178
Closing balance	**671**	**1,573**	666	1,550

45 Reconciliation of net cash flows to movement in net debt

	2005 £m	2004 £m
Increase/(decrease) in cash in the year	**68**	(2)
Cash flow from management of liquid resources	**309**	15
Cash flow from debt financing	**59**	33
Cash flow from subordinated liabilities	**(4)**	(1)
Cash flow from finance leases	**1**	–
Change in net debt from cash flows	**433**	45
Foreign exchange movements	**(23)**	27
Non-cash changes	**1**	5
Movement in net debt in the year	**411**	77
Net debt at start of year	**(938)**	(1,015)
Net debt at end of year	**(527)**	(938)

46 Analysis of net debt

	1 April 2004 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	31 March 2005 £m
Cash and deposits repayable on demand	94	68	(1)	–	161
Treasury bills, other loans, advances and treasury debt securities	725	309	4	–	1,038
Deposits and debt securities repayable within one year	(160)	67	(3)	(6)	(102)
Deposits and debt securities repayable after one year	(1,550)	(8)	(21)	6	(1,573)
Subordinated liabilities repayable after one year	(45)	(4)	(2)	1	(50)
Hire purchase contracts	(2)	1	–	–	(1)
	(938)	433	(23)	1	(527)

47 Cash flows arising from management of liquid resources

	2005 £m	2004 £m
Other loans, advances and treasury debt securities	(309)	(15)
Net cash flow from management of liquid resources	(309)	(15)

48 Contingent liabilities

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	21	21	21	21

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 2005, 3i Holdings plc had drawn down £75 million (2004: £72 million) and £40 million (2004: £30 million) respectively under these facilities.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan ("the Plan") in respect of the liabilities of the Plan of 3i plc, the principal employer of this Plan.

At 31 March 2005, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

49 Commitments

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Share and loan investments	431	333	377	271

50 Special dividend

The Board proposes to pay a special dividend of 40.7p per share (approximately £250 million) conditional upon shareholders approving a resolution to consolidate the Company's ordinary shares and that resolution becoming unconditional.

Principal subsidiary undertakings and joint ventures

Principal subsidiary undertakings at 31 March 2005

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	110,000,000 shares of £1	Services	
3i Investments plc	10,000,000 ordinary shares of £1	Investment manager	
3i Europe plc	500,000 ordinary shares of £1	Investment advisory services	
3i Nordic plc	500,000 ordinary shares of £1	Investment advisory services	
3i Asia Pacific plc	140,000 ordinary shares of £1	Investment advisory services	
Gardens Pension Trustees Limited	100 ordinary 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
3i Gestion SA (France)	200,000 shares of €16	Investment manager	168 Avenue Charles de Gaulle, 92200 Neuilly sur Seine France

The list above comprises the principal subsidiary undertakings as at 31 March 2005 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 2005, 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 2005

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
DIAB Intressenter AB (Sweden)	5,000 shares of SEK 100	50	Investment company	Box 7847 10399 Stockholm Sweden	31 March 2005
Atle Industri AB (Sweden)	5,000 shares of SEK 100	50	Investment company	Box 7847 10399 Stockholm Sweden	31 March 2005

As at 31 March 2005, the Company held 50% of the shares of Atle Industri AB. A subsidiary undertaking of the Company held, on behalf of the Company, 50% of the shares of DIAB Intressenter 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 "International private equity and venture capital valuation guidelines" issued by the AFIC, BVCA and EVCA.

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 normally 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 pages 75 and 76.

Ten largest investments

At 31 March 2005, the Directors' valuation of the ten largest investments was a total of £636 million. The residual cost of these investments at that date was £285 million.

Investment	Business line	Geography	First invested in	Residual 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
Travelex Holdings Ltd[4] Foreign currency services	Buyouts	UK	1998						
Equity shares				–	19.6%	109	–		
				–		**109**	**–**	**88**	**45**
SR Technics Holding AG Technical solutions provider for commercial aircraft fleets	Buyouts	Switzerland	2002						
Equity shares				7	32.2%	60	–		
Loans				43		43	3		
				50		**103**	**3**	**4**	**(1)**
Yellow Brick Road BV[5] Directory services	Buyouts	The Netherlands	2004						
Equity shares				6	22.7%	37	–		
Loans				19		50	5		
				25		**87**	**5**	**57**	**(38)**
Cannon Avent Group plc Manufacture of branded consumer products	Growth Capital	UK	1995						
Equity shares				5	22.2%	54	2		
				5		**54**	**2**	**37**	**14**
Betapharm Arzneimittel GmbH Supplier of generic prescription drugs	Buyouts	Germany	2003						
Equity shares				31	30.5%	31	–		
Loans				21		21	2		
				52		**52**	**2**	**1**	**9**
ERM Holdings Ltd[6] Environmental consultancy	Buyouts	UK	2001						
Equity shares				–	38.1%	18	–		
Loans				32		32	2		
				32		**50**	**2**	**(4)**	**–**
Pharmadule Emtunga AB Modular facilities to pharmaceutical/biotech offshore and telecom sectors	Buyouts	Sweden	2003						
Equity shares				1	47.5%	8	–		
Loans				38		38	3		
				39		**46**	**3**	**9**	**(1)**
Refresco Holding BV Fruit juice producer	Buyouts	The Netherlands	2003						
Equity shares				2	38.3%	19	–		
Loans				14		14	1		
Preference shares				12		12	–		
				28		**45**	**1**	**32**	**6**
Williams Lea Group Ltd Outsourced print services	Growth Capital	UK	1965						
Equity shares				33	37.9%	45	2		
				33		**45**	**2**	**51**	**6**
Petrofac Ltd[7] Oilfield services	Growth Capital	UK	2002						
Equity shares				–	16.2%	45	–		
Loans				21		–	1		
				21		**45**	**1**	**74**	**17**

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 2005.
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 on ordinary activities after tax 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 The residual cost of the equity held in Travelex Holdings Ltd is £120,560.
5 In April 2004, three portfolio companies were merged to form Yellow Brick Road BV. 3i's equity value was converted into a loan and into new equity shares.
6 The cost of the equity held in ERM Holdings Ltd is £387,701.
7 The loan to Petrofac Ltd is convertible into equity, which has been reflected in the valuation of individual instruments.

Forty other large investments

In addition to the ten largest investments shown on page 72, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £14 million. This does not include nine investments that have been excluded for commercial reasons.

Investment	Description of business	Business line	Geography	First invested in	Residual Cost[1] £m	Directors' valuation[1] £m
Senoble Holding SAS	Manufacturer of dairy products and chilled desserts	Growth Capital	France	2004	28	44
Financière Keos SA (Keolis)	Transport operator	Buyouts	France	2004	41	41
Care Principles Topco Ltd	Specialist healthcare	Buyouts	UK	1997	39	39
Vetco International Ltd	Oilfield equipment manufacturer	Buyouts	UK	2004	29	36
Tato Holdings Ltd	Manufacture and sale of specialist chemicals	Growth Capital	UK	1989	2	34
Goromar XXI SL	Manufacture of frites and glazes for ceramic tiles	Buyouts	Spain	2002	28	32
Aspen Insurance Holdings plc[2]	Property/casualty insurance underwriters	Growth Capital	US	2002	24	31
LDV Ltd	Manufacture of light commercial vehicles	Growth Capital	UK	1993	29	31
Hobbs Holdings No.1 Ltd	Retailer of women's clothing and footwear	Buyouts	UK	2004	29	29
Total Home Entertainment Ltd	Wholesale and distribution of home entertainment products	Growth Capital	UK	2003	28	28
Alö Intressenter AB	Manufacture of front end loaders	Growth Capital	Sweden	2002	28	28
Asia Multiplex SARL	Multiplex cinema operator	Growth Capital	S Korea	2000	9	28
Grup Maritim TCB SL	Operation of port concessions	Buyouts	Spain	1999	13	28
Local Press Ltd	Newspaper publisher	Buyouts	Ireland	2004	19	27
Smartstream Technologies Group Ltd	Software and services	Buyouts	UK	2000	28	27
Coor Service Management AB	Facilities management	Buyouts	Sweden	2004	25	25
Mölnlycke Health Care AB	Manufacture of single-use surgical and wound care products	Growth Capital	Sweden	2001	15	24
Morse plc[2]	Technology integrator	Buyouts	UK	1995	8	24
Freightliner Group Ltd	Rail freight	Buyouts	UK	1996	11	24
HSS Hire Service Holdings Ltd	Tool hire	Buyouts	UK	2004	24	24
CSR plc[2]	Single-chip wireless systems	Venture Capital	UK	1999	2	23
Deutsche Telefon Und Marketing Services AG	Service telephony	Venture Capital	Germany	1998	8	23
Target Express Ltd	Freight transport by road	Buyouts	UK	2000	43	22
Malachite 1 Ltd (Buy as you view)	Coin meter based hire purchase	Buyouts	UK	2004	20	20
Nova Rodman SL	Boat manufacturer	Growth Capital	Spain	2004	19	19
Inhoco 3017 Ltd (Republic Ltd)	Fashion retailer	Growth Capital	UK	2004	9	19
Telecity plc[2]	Services for internet service providers	Venture Capital	UK	1998	13	19
CID Car Interior Design Holdings GmbH	Manufacturer of vehicle interior trims	Growth Capital	Germany	2004	18	18
Vétoquinol SA	Development, manufacture and distribution of vet pharmaceuticals	Growth Capital	France	2003	14	18
Specialised Petroleum Services Group Ltd	Oilfield wellbore clean up	Growth Capital	UK	1999	16	18
Wwmw E-Commerce International GmbH	Internet pharmacy	Venture Capital	Germany	2001	8	18
Mettis Group plc	Manufacture and sale of forgings	Buyouts	UK	1999	38	17
Hyva Investments BV	Branded hydraulics to commercial vehicles	Buyouts	Netherlands	2004	16	17
Hospitais Portugueses SA	Private healthcare supplier	Growth Capital	Spain	2004	14	17
The West of England Trust Ltd	Legal services	Growth Capital	UK	1982	1	17
Ubinetics Ltd	Hardware solutions for 3G devices	Venture Capital	UK	2004	11	17
Huntswood CTC Ltd	Outsourced financial services	Growth Capital	UK	2003	9	16
ProStraken Group plc	Pharmaceutical products	Venture Capital	UK	1999	15	16
Westvan (2001) Ltd	Speciality paper manufacturer	Buyouts	UK	1979	15	15
Haulfryn Group Ltd	Residential and holiday caravan park operator	Growth Capital	UK	1968	2	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 business line (£m)	**2005**	2004	2003	2002	2001
Buyouts	**532**	438	376	229	621
Growth Capital	**274**	349	379	390	428
Venture Capital	**144**	161	176	420	923
SMI	**12**	31	–	–	–
Total	**962**	979	931	1,039	1,972

On pages 74 to 77, the analyses by business line have been amended for the following changes: (i) SMI figures were previously included within those of the business lines to which the individual assets related. These have been separately identified in 2005 and the comparative year 2004, but not for earlier years; (ii) Smaller buyouts which were previously included within Buyouts are now disclosed within Growth Capital, for which all comparatives have been restated; (iii) the portfolio is analysed over the five year period showing assets within the business lines in which they are now managed. Previously, assets were included in the business line which reflected their stage of investment at the relevant balance sheet date.

Investment by geography (3i only – excluding co-investment funds) (£m)					
UK	**334**	309	318	377	786
Continental Europe	**341**	401	304	312	560
US	**51**	61	74	119	134
Asia	**29**	13	20	26	49
Total	**755**	784	716	834	1,529

Investment by geography (including co-investment funds) (£m)					
UK	**440**	375	399	443	1,006
Continental Europe	**433**	526	436	446	770
US	**51**	61	74	119	134
Asia	**38**	17	22	31	62
Total	**962**	979	931	1,039	1,972

Continental European investment (£m)					
Benelux	**24**	73	67	64	63
France	**91**	89	36	84	117
Germany/Austria/Switzerland	**124**	186	149	146	346
Italy	**21**	19	32	13	64
Nordic	**109**	106	69	90	16
Spain	**45**	34	75	45	131
Other European†	**19**	19	8	4	33
Total	**433**	526	436	446	770

† Other European includes investments in countries where 3i did not have an office at 31 March 2005.

Investment by FTSE industrial classification (£m)					
Resources	**93**	11	12	15	67
Industrials	**207**	219	328	110	256
Consumer goods	**195**	306	194	206	371
Services and utilities	**310**	290	197	352	482
Financials	**77**	33	54	26	55
Information technology	**80**	120	146	330	741
Total	**962**	979	931	1,039	1,972

Portfolio analysis

The Group's equity, fixed income and loan investments total £4,301 million at 31 March 2005.

Portfolio value by business line (£m)	2005	2004	2003	2002	2001
Buyouts	**1,570**	1,480	1,197	1,152	1,183
Growth Capital	**1,226**	1,214	2,000	2,647	2,710
Venture Capital	**743**	672	742	1,310	1,912
SMI	**762**	960	–	–	–
Total	**4,301**	4,326	3,939	5,109	5,805

Portfolio value by geography (including co-investment funds) (£m)					
UK	**2,751**	3,024	3,041	4,018	4,792
Continental Europe	**2,427**	2,299	1,773	1,984	2,039
US	**281**	241	182	270	246
Asia	**102**	86	101	101	98
Total	**5,561**	5,650	5,097	6,373	7,175

Portfolio value by geography (3i only – excluding co-investment funds) (£m)					
UK	**2,253**	2,506	2,494	3,386	4,121
Continental Europe	**1,688**	1,511	1,175	1,373	1,363
US	**272**	234	180	264	235
Asia	**88**	75	90	86	86
Total	**4,301**	4,326	3,939	5,109	5,805

Continental European portfolio value (£m)					
Benelux	**180**	181	101	78	92
France	**291**	234	186	253	254
Germany/Austria/Switzerland	**499**	454	319	385	556
Italy	**69**	53	69	103	142
Nordic	**344**	332	273	304	26
Spain	**249**	224	211	222	234
Other European†	**56**	33	16	28	59
Total	**1,688**	1,511	1,175	1,373	1,363

† Other European includes investments in countries where 3i did not have an office at 31 March 2005.

Portfolio value by FTSE industrial classification (£m)					
Resources	**161**	155	186	268	232
Industrials	**1,074**	1,018	944	1,117	1,081
Consumer goods	**964**	1,026	873	1,080	1,237
Services and utilities	**1,212**	1,275	1,018	1,318	1,538
Financials	**331**	238	274	273	256
Information technology	**559**	614	644	1,053	1,461
Total	**4,301**	4,326	3,939	5,109	5,805

Portfolio value by valuation method (£m)					
Imminent sale or IPO	**373**	174	37	51	106
Listed	**179**	225	187	413	818
Secondary market	**31**	29	30	89	266
Earnings	**1,138**	1,347	938	1,210	1,033
Cost	**468**	509	607	1,077	1,078
Further advance	**203**	149	155	186	244
Net assets	**92**	103	139	132	147
Other (including other Venture Capital assets valued below cost)	**417**	328	282	219	157
Loan investments and fixed income shares	**1,400**	1,462	1,564	1,732	1,956
Total	**4,301**	4,326	3,939	5,109	5,805

Portfolio analysis (continued)

Buyout portfolio value by valuation method (£m)	2005	2004	2003	2002	2001
Imminent sale or IPO	**134**	59	–	–	–
Listed	**72**	79	46	93	215
Secondary market	**1**	1	6	12	16
Earnings	**372**	472	245	204	140
Cost	**71**	58	93	64	76
Net assets	**4**	2	7	9	6
Other	**47**	20	32	14	9
Loan investments and fixed income shares	**869**	789	768	756	721
Total	**1,570**	1,480	1,197	1,152	1,183

Growth Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**120**	49	23	42	62
Listed	**29**	60	102	177	313
Secondary market	**7**	6	6	13	25
Earnings	**360**	350	658	967	850
Cost	**159**	171	230	284	175
Further advance	**14**	15	14	24	22
Net assets	**32**	39	131	115	140
Other	**184**	145	135	155	67
Loan investments and fixed income shares	**321**	379	701	870	1,056
Total	**1,226**	1,214	2,000	2,647	2,710

Venture Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**33**	36	14	9	44
Listed	**63**	62	39	143	290
Secondary market	**19**	19	18	64	225
Earnings	**22**	–	35	39	43
Cost	**221**	257	284	729	827
Further advance	**186**	119	141	162	222
Net assets	**1**	1	1	8	1
Other Venture Capital assets valued below cost	**82**	51	79	23	15
Other	**55**	66	36	27	66
Loan investments and fixed income shares	**61**	61	95	106	179
Total	**743**	672	742	1,310	1,912
– of which early stage Venture Capital	**561**	456	589	1,042	1,368

SMI portfolio value by valuation method (£m)					
Imminent sale or IPO	**86**	30	–	–	–
Listed	**15**	24	–	–	–
Secondary market	**4**	3	–	–	–
Earnings	**384**	525	–	–	–
Cost	**17**	23	–	–	–
Further advance	**3**	15	–	–	–
Net assets	**55**	61	–	–	–
Other	**49**	46	–	–	–
Loan investment and fixed income shares	**149**	233	–	–	–
Total	**762**	960	–	–	–

Venture Capital portfolio value by sector (£m)					
Healthcare	**236**	231	253	400	359
Communications	**183**	168	151	242	493
Electronics, semiconductors and advanced technologies	**140**	101	107	186	192
Software	**184**	172	231	482	868
Total	**743**	672	742	1,310	1,912

Realisations analysis

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

Realisations proceeds by business line (£m)	**2005**	2004	2003	2002	2001
Buyouts	**505**	205	345	138	204
Growth Capital	**443**	391	538	540	677
Venture Capital	**156**	91	93	261	670
SMI	**198**	236	–	–	–
Total	**1,302**	923	976	939	1,551

Realisations proceeds by geography (£m)					
UK	**897**	608	727	794	1,366
Continental Europe	**365**	245	238	133	181
US	**34**	10	2	10	–
Asia	**6**	60	9	2	4
Total	**1,302**	923	976	939	1,551

Realisations proceeds (£m)					
IPO	**41**	7	37	55	253
Sale of quoted investments	**134**	118	110	370	536
Trade and other sales	**744**	532	493	303	470
Loan and fixed income share repayments	**383**	266	336	211	292
Total	**1,302**	923	976	939	1,551

Realisations proceeds by FTSE industrial classification (£m)					
Resources	**105**	14	60	52	34
Industrials	**142**	216	294	193	211
Consumer goods	**394**	167	192	255	278
Services and utilities	**457**	352	330	288	338
Financials	**29**	80	42	18	33
Information technology	**175**	94	58	133	657
Total	**1,302**	923	976	939	1,551

Funds under management

(£m)	**2005**	2004	2003	2002	2001
Third party unquoted co-investment funds	**1,913**	1,875	1,587	1,995	2,131
Quoted investment companies and 3i Group Pension Plan	**–**	600	452	761	870
Total	**1,913**	2,475	2,039	2,756	3,001

3i closed its quoted fund management business in 2005. The 3i Group Pension Plan is now managed by a third party.

Returns and IRRs – an explanation

Our aim is to achieve market-beating returns by generating cash to cash vintage year IRRs of 20% for Buyouts and Growth Capital and 35% for Venture Capital

How does 3i's total return equate to the IRR measures?

Table 1 on page 20, shows how 3i's total return is made up.

Total return is calculated as a gross portfolio return plus other fee income, less costs and net interest payable. Total return can be expressed as a quantum (ie £512 million for the year to 31 March 2005) or as a percentage of opening shareholders' funds (ie 15.9% for the year to 31 March 2005).

Gross portfolio return is made up of the income and value movement (both realised and unrealised) generated from our portfolio.

Costs include expenses and carried interest payable.

The elements that make up the gross portfolio return are the same constituents used in an IRR calculation.

Gross portfolio return (stated as a percentage of opening portfolio value) will equate to an IRR measure over time. So, if 3i achieves 20% gross portfolio returns each year, the long-term IRR will also move to 20%.

What is total shareholder return?

Total shareholder return is the change in share price over a period plus dividends reinvested.

What is an IRR measure?

The Internal Rate of Return ("IRR") is the interim return earned by 3i investing in an asset from the date of initial investment up until a particular point in time. It is calculated as the annualised effective compound rate of return, using monthly cash flows, generated from the asset. For assets that have yet to be sold, and therefore have not generated a final cash inflow from sale proceeds, the asset value at the date of calculation of the IRR is used as the terminal cash flow. An IRR can apply to a single asset or a pool of assets (eg all new investments made in financial year 2003 can be pooled to calculate an IRR for vintage year 2003).

An IRR calculated using the current value of the asset as the terminal cash flow is called a Fund IRR. A Cash to Cash IRR does not include any terminal value for unsold assets and is a pure, more simple measure of cash invested compared to cash returned as it does not include any judgmental asset valuation for the unsold assets.

What is a vintage and a vintage year?

A vintage is a collection of assets in which 3i makes its first investment during a defined period of time. The most common time period measured in the Private Equity industry is a year. A vintage year at 3i includes all new investments made within our financial year, ie vintage year 2005 covers new investments made from 1 April 2004 to 31 March 2005.

Why does 3i track the performance of vintage years?

Looking at the performance of a vintage enables us to asses the returns we are making on pools of assets invested during a vintage year. It gives a measure of the performance of each year's investment activity in isolation.

It also allows us to assess the return generated from assets over the length of time we hold them, rather than just looking at the performance between the beginning and end of a financial year, which is shown in our yearly total return statement. The annual total return analysis has limitations as a measure of longer-term performance as it is only a representation of how the assets have performed in one financial year and is heavily influenced by the valuation of the asset at the beginning of the year and the end. It does not show the evolution of how a vintage year is performing over time.

To achieve this longer-term measure of performance over time, the IRR is the standard measure used across the Private Equity industry.

What IRR measures do 3i use to assess the performance of a vintage?

3i has published target Cash to Cash IRRs for each business line. These targets are 20% for Buyouts and Growth Capital and 35% for Venture Capital.

A Cash to Cash IRR cannot be meaningfully used to measure the performance of a vintage until the majority of assets in that vintage are realised. Therefore, 3i monitors the progress of each vintage and the evolution of the IRR using a combination of the Fund IRRs and the extent to which a vintage is realised, to assess the interim performance. Case A, depicted in Chart 1, is an example to show the interim Cash to Cash IRR of an asset and clearly indicates why, during the holding period of an asset, the Fund IRR gives a more appropriate measure of performance.

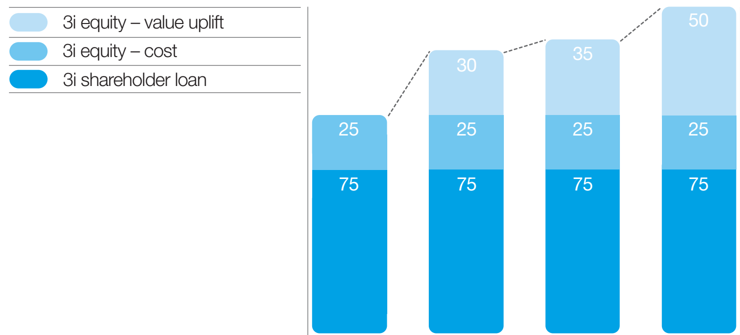
Volatility, the portfolio effect and the holding period

The published target IRRs are for each business line in aggregate. It does not mean that the IRR for each asset in those business lines will achieve the target IRRs individually. There will always be a range of IRRs achieved on each of the individual assets in each vintage year. However, when assets are pooled together, the portfolio effect will reduce this overall volatility in each vintage year. The range of volatility we expect in any one given vintage year is +/-10% for Buyouts, +/-7% for Growth Capital and +/-20% for Venture Capital.

Taking a longer period (say five years), we expect the volatility to average out at +/- 5% for Buyouts, +/- 3% for Growth Capital and +/- 10% for Venture Capital.

A 3i vintage year is made up of many assets. All will have their own individual cash flows and different timings of when value uplift occurs and holding periods. We believe that after three years the maturity of a vintage will have developed enough for the Fund IRR to give a good indication of the final outcome. By seven years most vintage years will be largely realised.

Chart 1 IRR evolution



Case A	Year 0	Year 1	Year 2	Year 3
Investment	(100)			
Yield		6.5	6.5	6.5
Value at year end	–	130	135	–
Sale proceeds				150
Fund IRR	0%	36%	22%	20%
Cash to Cash IRR	(100%)	(94%)	(71%)	20%

Tracking our progress

To monitor a vintage year we use a combination of Fund IRRs and money multiples. The Fund IRR to give a measure of performance and the money multiple to show how much cash has been returned compared to cost (eg Case A = 1.7x) so that we can assess the extent to which that performance is "locked-in".

Private equity and venture capital – a lexicon

"Private equity", as the term suggests, involves investment of equity capital in private businesses. There are three broad categories of investment within private equity:

– ***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 (ie 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.

– ***Buyout 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 buyouts, management buy-ins, institutional buyouts, etc. Here, the equity in the post buyout business is usually shared between the management team and the VC, with the VC usually holding a majority stake. The finance for the buyout 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 that provided by 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 (ie a sale to a corporate purchaser) or flotation on the public markets of the underlying business. This preference tends to make private equity 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 it 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 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.

Drivers of private equity 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, 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 buyout 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.

– ***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	15 June 2005
Record date	17 June 2005
Annual General Meeting	6 July 2005
Final dividend to be paid	15 July 2005
Interim dividend expected to be paid	January 2006

Shareholder profile Location of investors at 31 March 2005	
UK (including retail shareholders)	80.22%
Continental Europe	7.54%
US	10.44%
Other international	1.80%

Share price	
Share price at 31 March 2005	671p
High during the year (15 February 2005)	731p
Low during the year (12 and 13 August 2004)	528p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2005	%
1 – 1,000	25,553	2,269	14,245,580	2.32
1,001 – 10,000	6,204	1,804	18,199,037	2.96
10,001 – 100,000	166	537	24,954,052	4.06
100,001 – 1,000,000	22	342	124,294,921	20.23
1,000,001 – 10,000,000	0	96	270,168,225	43.97
10,000,001 – highest	0	10	162,547,352	26.46
Total	31,945	5,058	614,409,167	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 2005.

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