3i Group plc
Report and accounts 2006

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 US 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.

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This Annual report and accounts may contain certain statements about the future outlook for 3i. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Front cover
Hong Kong, one of the cities from which we operate.

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.

Our strategy:
– to invest in high-return assets;
– to grow our assets and those we manage on behalf of third parties;
– to extend our international reach, directly and through investing in funds;
– to use our balance sheet and resources to develop existing and new business lines; and
– to continue to build our strong culture of operating as one company across business lines, geographies and sectors.

Group financial highlights

22.5%
Return on opening shareholders' funds

£2,207m
Realisation proceeds

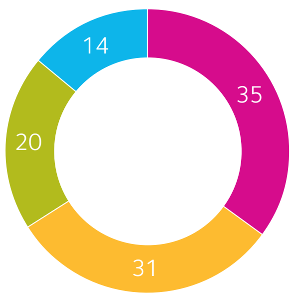
£831m
Total return

15.2p
Dividend per share

Financial highlights for the year to 31 March	**2006**	2005 (as restated)*
Gross portfolio return on opening portfolio value	**24.4%**	16.7%
Total return on opening shareholders' funds	**22.5%**	15.2%
Dividend per share†	**15.2p**†	14.6p
Realised profits over opening valuation on disposal of investments	**£576m**	£250m
Diluted net asset value per share	**739p**	614p
New investment	**£1,110m**	£755m
Realisation proceeds	**£2,207m**	£1,302m
Total portfolio value	**£4,139m**	£4,317m

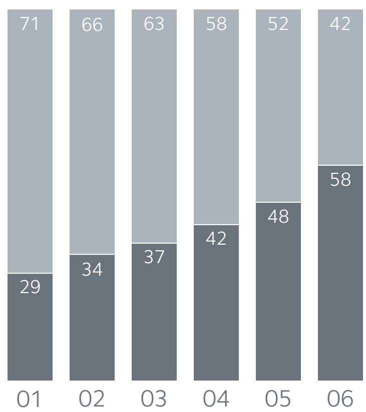
*Restated comparatives reflect the adoption of International Financial Reporting Standards ("IFRS").
†In addition, a special dividend of 40.7p per share was paid in the year.

Portfolio value (%)
as at 31 March 2006



Buyouts	£1,465m
Growth Capital	£1,284m
Venture Capital	£826m
SMI	£564m

Trend in international portfolio value (%)
as at 31 March



UK International

Our business lines

29%
Buyouts: Gross portfolio return

26%
Growth Capital: Gross portfolio return

17%
Venture Capital: Gross portfolio return

Buyouts
Focusing on mid-market transactions in Europe, targeting 15 investments per year, each with a value of up to €1bn.

Growth Capital
Making minority investments in established and profitable businesses across Europe, Asia and now the US, investing €10m to €150m per transaction.

Venture Capital
Investing in early and late-stage technology companies, typically in the €2m to €50m range in Europe and the US. We focus on the software, communications, healthcare and electronics sectors.

Gross portfolio return for the year to 31 March	**2006** **%**	2005 %
Buyouts	**29**	20
Growth Capital	**26**	23
Venture Capital	**17**	11

The relationship between 3i's measures of return is explained in detail on pages 98 and 99.

Financial performance by business line (£m)
for the year to 31 March 2006

	Total	Buyouts	Growth Capital	Venture Capital	SMI
Gross portfolio return	£1,053m	447	341	128	137
New investment	£1,110m	451	497	156	6
Realisation proceeds	£2,207m	877	855	207	268
Realised profit	£576m	208	232	72	64
Unrealised value movement	£245m	124	60	51	10
Portfolio income	£232m	115	49	5	63

SMI
3i's Smaller Minority Investments ("SMI") initiative, established in 2001, generates returns from some of our older investments. It is our objective to realise this portfolio in the near term. As at 31 March 2006, we held 526 SMI investments valued at £564 million, representing 14% by value and 48% by number of 3i's total portfolio (2005: 807 investments valued at £756 million).

Chairman's statement

"A strong position in a buoyant market enabled the Group to deliver a return of £831 million for the year. In addition, good progress has been made towards achieving our vision. Another year of strong cash flow enables us to make further substantial returns of capital to shareholders."

Baroness Hogg
Chairman
10 May 2006

3i entered the financial year with strong momentum and buoyant market conditions, which continued throughout the period. Our market position enabled the Group to take advantage of these factors and to deliver a return of £831 million for the year to 31 March 2006. This was substantially up from £501 million last year and represented a return of 22.5% on opening shareholders' funds.

Having invested in and developed companies of strategic value to others, 3i was well placed to sell into receptive markets. Realisations totalled £2.2 billion and were made at a profit of 35% over opening value.

The Board is recommending a final ordinary dividend of 9.7p, making a total ordinary dividend for the year of 15.2p, up 4.1% on last year. Meanwhile, the £500 million return of capital approved by shareholders at our Extraordinary General Meeting last year has essentially been completed. The Board intends to return a further £700 million to shareholders by way of a bonus issue of listed B shares, which is currently expected to take place in July. Resolutions relating to the return of capital proposals will be put to shareholders at an EGM.

High quality new investment is a key driver of future value. Despite remaining highly selective, we were able to increase investment by 47% to £1.1 billion, drawing on our in-depth sector knowledge and local relationships in a range of different markets. The international proportion of our investment rose in the year to 63% and our widening international reach is illustrated by the fact that over half of our assets are now outside the UK.

In Asia we established teams in Shanghai and Mumbai during the year, and made ground-breaking investments in both China and India. 3i's Growth Capital business has also recently entered the US market and, in addition, our Infrastructure team is now in place and has made a number of investments.

We have been planning for some time to establish an Advisory Board for our business in Germany. I am delighted to report that Dr Peter Mihatsch, who has been on the Group Board since 2004, has agreed to become Chairman of this new Advisory Board. However, as he would then no longer be categorised as an independent non-executive Director, this means he will be stepping off the 3i Group Board at the end of July. I would like to thank him for the contribution he has made as well as the still greater one he will be making to 3i in the future.

I would also like to thank Danny Rosenkranz, who is Chairman of the Remuneration Committee and has been on the Board for six years. Danny has agreed to stand for re-election for a further year to support Sir Robert Smith, who will be taking on the chairmanship of the Remuneration Committee in August.

Underpinning this year's performance is a high level of staff engagement. A survey of our staff during the year, conducted by Ipsos MORI, showed high commitment, and that 3i's level of staff engagement exceeded that of many other leading companies.

This commitment also characterises our approach to corporate responsibility. For a company like 3i, our direct impact on the community and the environment will be much less significant than that of the companies in which we invest. We nevertheless are refining measurement of our own impact, while continuing to review our standards for these issues in portfolio selection and management.

I would like to thank all our staff for their skill, effort and teamwork in achieving these good results and also pay tribute to the management teams and the advisers of our portfolio companies.

So, in summary, this has been a good year for 3i shareholders, with the Group taking advantage of favourable market conditions, delivering a high level of return on shareholders' funds, growing investment levels and improving the strategic position of the business. In developing our strategy we will continue to combine ambition with rigour in pursuit of value for our investors.

Chief Executive's statement

"With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value."

Philip Yea
Chief Executive
10 May 2006

I am pleased to report a very good set of full year financial results and further progress in implementing the plans we set for the business over the past 18 months. In particular, these results provide tangible evidence of the continued success of our Buyout business and the benefits of the recent strategic changes made to the models for our Growth Capital and Venture Capital business lines.

Financing markets continue to be favourable, with the private equity markets giving high valuations to good assets. These conditions have provided the opportunity for us to achieve a record level of realisations and also realised profits. All of our business lines have been active sellers into these markets. Yet, at the same time, each of our three core business lines has increased its level of new investment. The most notable increase was within the Growth Capital business, reflecting its focus on larger deal sizes when compared to a year ago and the growing importance of Asia within our strategy.

The rate of growth in private equity markets over the last decade has, for many people, raised genuine questions as to the sustainability of returns and the relative advantages of this ownership model as the asset class becomes more mainstream. We continue to believe that there is more than ample opportunity and that the key issue for the Group is to leverage its competitive advantage in those particular markets which provide greatest returns over the mid term.

Our teams in Asia have been strengthened, our teams in the US are being reinforced and, more indirectly, we have made a number of investments in selected funds which can bring exposure to specific geographies or asset classes that we cannot achieve on our own.

We have recently completed a comprehensive strategic review of both our current and future business areas within the private equity field and, where appropriate, will continue to use our balance sheet to develop new business lines, and our knowledge-sharing culture and market access to attract new people to join us.

As part of this review, we have also looked in detail at the opportunities and structure of each of our current business lines. We have concluded that we should increase the mix of late-stage investment within our Venture Capital business, an area which particularly plays to our international differentiation. As a result of this change we have amended our cash-to-cash IRR target for this business line to 25%, with vintage year volatility of plus or minus 15%. We have also confirmed the opportunity for both this business and our Growth Capital business within the US, and are building our local teams accordingly.

I am very pleased with the further steps we have taken on our people agenda.

In a rapidly growing industry where experience is critical and personal compensation at the most senior levels is performance related and uncapped, it is critical to ensure that both the financial and non-financial elements of our people proposition are as competitive as they can be. To supplement the carry schemes which we have implemented across our business lines, we have also introduced market aligned co-investment schemes whereby members of our investing team make personal investments alongside 3i and third-party investors' capital.

We have also made further changes to our internal organisation to ensure that we give our investing teams maximum flexibility to operate as self-standing partnerships with the same operational flexibility as their competitors, yet enable them to be both the beneficiaries of and contributors to the network of knowledge sharing that differentiates 3i from most firms within our field. Our Business review which follows, contains a number of examples showing this culture of cross-geography cross-business line co-operation at its very best.

To reflect the ambitious nature of our agenda, we have also created a Group Partnership, which brings together those senior business leaders who can make the broadest contribution to the further development and expansion of the firm.

The recent move of our London office to more modern premises has had a significant impact in terms of communications and produced an enhanced experience for visitors to 3i, as well as an improved working environment.

We have also reviewed our capital requirements over the coming period and, notwithstanding the significant level of opportunity we have identified, we believe it is appropriate to make a further return of cash to shareholders. Although accounting for the equity option within the Convertible Bond issued in 2003 has, under IFRS, reduced reported profits (and will continue to do so if we are successful in delivering shareholder value through an increase in the share price), the flexibility to satisfy the Bond redemption in 2008 in either cash or shares provides a significant equity cushion should realisation markets slow for any reason.

Markets remain favourable and, although we expect our levels of realisations in the new financial year to be below last year's exceptional levels, we expect to increase our level of investment again if the present economic conditions continue.

With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value.

Operating on a world-wide scale

3i in Europe
From our roots in the UK, over the last two decades 3i has developed a network of teams throughout Europe. Our local teams, based in 10 European countries, draw on the resources within the region and elsewhere in the world to win business and create value.

3i in Asia
Since 1997 3i has been developing a business in Asia. Today, we have teams in Singapore, Hong Kong, Mumbai and Shanghai and are in the process of establishing a presence in Beijing. We also have investments in the CDH China Growth Capital Fund II and the MKS Japan Fund IV buyout fund. Our business in Asia delivers considerable value to our portfolio companies elsewhere in the world.

3i in the US
Our teams in the US in Silicon Valley, California and Waltham, Massachusetts are focused on venture capital, investing in early and late-stage technology. 3i's ability to benchmark opportunities globally and be a truly international syndicate partner is attractive to those in the US market with international ambition.

3i's recently established New York team provides a growth capital investing capability. It also increases 3i's market access in a key economy and enhances our ability to add additional value to portfolio companies in Europe and Asia.

Extending our reach
Building on 3i's strong position in Europe, we have been growing our presence in Asia and the US with new 3i teams in Mumbai, Shanghai and New York. Additionally, through investing in funds, we are gaining experience of markets in eastern Europe, the Middle East, Russia and Japan.

The right culture
3i is located in many markets but operates as a "one room company", with a strong culture of working across borders, harnessing knowledge and skills from across the world. Operating with an "international mindset" requires constant investment in our people and in our communications.

Our financial strength, local presence, global access and ability to deliver complex transactions are sources of competitive advantage, as is our culture.

Producing consistent market-beating returns

Performance culture
From the setting of objectives for individuals to the development of value creation plans for specific investments, 3i's culture is one of ambition. Setting ambitious goals, measuring progress and facing up to issues and dealing with them are key aspects of this.

Clear targets
Having clear targets for our own business, as well as for each investment, is an essential component of delivering value. 3i's published targets for each of our business lines, using the standard industry measure, cash-to-cash returns, are shown in the table below. Also shown, is the variability that we consider appropriate to reflect our risk profile in terms of cyclical and vintage volatility. The transparency of these targets and the focus that they bring is healthy for 3i and reinforces our straightforward approach to doing business.

Also shown is the cyclical and vintage volatility that we consider appropriate to reflect our risk profile.

Aligned interests
An important aspect of creating value is aligning our interests with the interests of other shareholders and key stakeholders in the businesses in which we invest. This is especially important in minority equity investing. Establishing the right investment agreements at the outset, clarity on roles and responsibilities and what is expected of each party in delivering a plan for creating value, are essential.

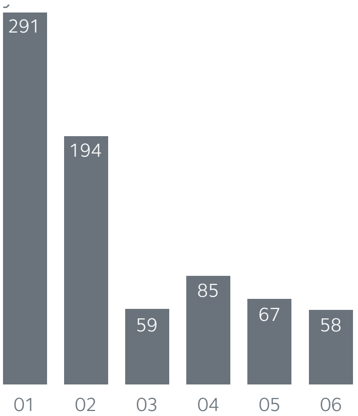
Focus
To invest in the highest quality businesses, and to grow 3i returns, requires focus. Focus on identifying the right opportunities, focus on the key areas which will create value and then focus on delivering that value. Since 2002 3i has become a much more focused business, as the charts below demonstrate.

Targets	Cash-to-cash return pa %	Cycle volatility %	Vintage year volatility %
Buyouts	20	+/-5	+/-10
Growth Capital	20	+/-3	+/- 7
Venture Capital	25	+/-7	+/-15

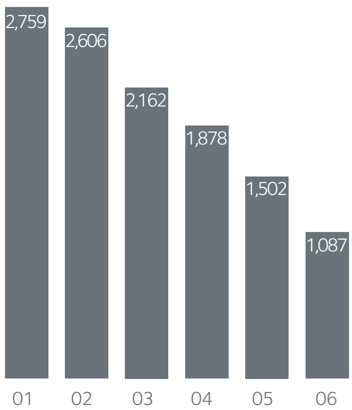
Note: For an explanation of cash-to-cash returns and volatilities, please see pages 98 to 99.

A more focused business since 2002

Number of new investments
year to 31 March



Number of portfolio companies
at 31 March



Our vision

Acknowledged for our partnership style

Long-term relationships
3i's reputation is critically dependent upon the relationships that we have built with business leaders around the world. We know that years of good work can be undone with one poorly handled interaction. In highly charged business situations, where views can easily differ, being able to put an alternative view in a straightforward and engaging way can go a long way to building good relationships. The importance attached to long-term relationships is a significant feature of 3i's culture.

With shareholders
As an investor ourselves, we appreciate the importance of good communications with our shareholders and providing opportunities for shareholders to express their views. Our investor relations website www.3igroup.com embodies our open approach.

With the teams we back
At 3i we recognise that our success depends upon the success of the management teams we back. We recognise that aligning interests, motivating the leaders of our portfolio companies to achieve exceptional performance and adding value to their boards and businesses is not just in 3i's short-term interests, but also central to our reputation.

With staff
Compelling employment propositions are just the start of attracting and retaining high-calibre staff around the world. 3i also offers a development culture and an organisation which is challenging, enjoyable and rewarding and where teamwork and a spirit of partnership are real.

With partners
There are many other people who contribute to making our business successful. These include professional advisers, vendors of businesses and buyers of our portfolio companies as well as suppliers to the Group. We aim to treat people with respect and to be a valued partner to them.

Winning through our unparalleled resources

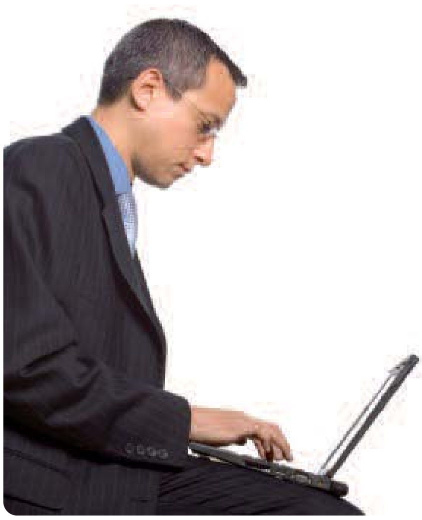
A knowledge culture
3i's culture is one of sharing information, where good communications are valued, and where looking at a piece of information in a different way is seen as key to harnessing 3i's capability. There is acknowledgement for those who deliver knowledge to others.

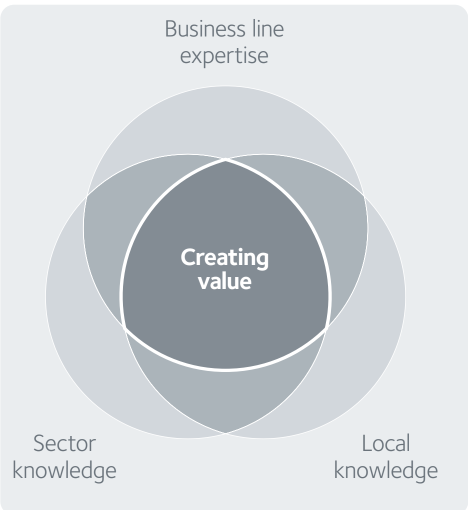
Sector strength
Sixty years of investing in a broad range of sectors has provided a wealth of knowledge and considerable experience and relationships. Sector-based marketing is increasingly relevant and 3i has built sector-based communities of investee companies as a powerful source of added value. Our most developed sector teams are in Oil, Gas and Power, in Media and in Healthcare. The benefits which can be derived across business lines and geographies are considerable.

People programmes
3i operates well-established programmes for chairmen, chief executives, chief financial officers and non-executive directors. These are designed to offer participants access to 3i's deal flow and priority consideration for appointments in our portfolio as well as high-quality and experienced peer groups. The programmes also provide 3i with privileged access to high-quality business leaders around the world and across the many sectors in which we invest. Additionally, they provide further knowledge and network benefit and a centre of excellence and best practice to a key driver of investment success – "talent".

The best team for the job
Key to leveraging 3i's scale is our "best team for the job" approach. This applies to projects within 3i as much as to making and managing investments. We achieve this through drawing on the most relevant internal and external resources from across the world.

Combining capabilities
3i's ability to combine the capabilities of highly experienced specialist investors with sector knowledge, and people who can operate skilfully at a local level, is a considerable source of competitive advantage. It also adds significant value to asset management and underpins our ability to source the right team.





Business review

Introduction

This Business review provides an overview of our:

- Group strategy;
- main business activities;
- principal markets;
- our Group and business line performance; and
- principal risks.

It also describes our key financial measures and our performance against them.

The key financial performance measures are:

Group measures
- Total return
- Gross portfolio return
- Gearing
- Net asset value growth

Business line measures
- Gross portfolio return
- Portfolio health
- Long-term IRRs by vintage

Non-financial performance measures are considered in the Corporate responsibility segment of this Report and accounts. They include measures of employee engagement and environmental performance.

Group strategy

Our strategy is to grow our assets and those the Group manages on behalf of third parties by using our relationships and knowledge to identify and invest in opportunities that can deliver high returns. Change provides opportunity, and as 3i operates across Europe, Asia and the US, the rapid rate of change in the global economy provides a significant number of investment opportunities where our knowledge and relationships, when combined with active management, can deliver real financial value.

We are constantly reviewing developments in the private equity markets, the competitiveness of our existing business lines and the potential to expand our access to good opportunities. Where appropriate, we use our capital to fund additional resources, to seed new proprietary business lines and to build relations with other investment managers who can give us exposure to an attractive market.

Our people are organised in self-standing teams whose structure is market-adapted, whose compensation is results-oriented, and which have as their principal objective the selection of the very best opportunities within our chosen asset classes. We seek to maximise our performance by the delivery of our collective knowledge and relationships to each investment opportunity. Our teams are both the contributors to, and the beneficiaries of, this culture of knowledge sharing.

Key to our strategy is attracting and developing people who can combine the requisite investment and professional experience with our cultural fit. Part of this culture is an active approach to managing development.

Our financial and risk management processes are focused on delivering targeted returns on asset specific pools of capital, whilst optimising the mix between returns on proprietary invested capital, income received from fees on third-party funds and setting appropriate leverage ratios.

Our business

Group

The Group's investment focus is on buyouts, growth capital and venture capital. At 31 March 2006: Buyouts represented 35% of our portfolio; Growth Capital 31%; and Venture Capital 20%.

Additionally, we have a portfolio of Smaller Minority Investments, which accounts for 14% of the portfolio. It is our objective to realise this portfolio progressively in the near term.

We are a knowledge-based company providing market access, insight for investment decision making and the ability to add significant value to the companies in which we invest.

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

We operate through a network of teams located in Europe, Asia and the US. Europe is our principal region with some 90% of the investment portfolio by value based in this market. We continue to increase our presence in new markets. During the year, teams were formed in Shanghai and Mumbai and, most recently, in New York to extend our Growth Capital business.

Consistent with our strategy of investing in third-party private equity funds to gain market access and additional opportunities to add value to our portfolio, we made investments in Israel and Russia during the year. These accompany existing investments in funds in China, eastern Europe and Japan.

The benefits of having access to permanent capital from our own balance sheet also enable us to take a more flexible and longer-term approach to the structuring of individual investments.

Buyouts

This business line invests in European mid-market buyout transactions with a value of up to €1billion and targets around 15 investments per year. These investments typically involve 3i investing with co-investment funds managed by 3i. Investments are in businesses with development potential where we can work with an incentivised management team to grow value through operational improvements and by exploiting market opportunities. These businesses are generally sold by large corporates disposing of non-core activities, private groups with succession issues or, in the case of a secondary buyout, other private equity investors.

A key to our success is our international network, which enables us to access markets as a "local" participant and to apply to each opportunity the knowledge, skills and sector experience of our much larger pan-European resource. An intimate understanding of the economic model that drives the companies that we invest in is critical, as is the value creation plan that supports each investment decision.

Competition in the European buyout market is intense and the high level of historic returns achieved has continued to attract new entrants, including some non-traditional competitors, such as hedge funds.

Despite the strong competition, we are confident that through a combination of our scale, local knowledge and sector insight, we can build on our position as the leading European mid-market buyout house.

We will also actively review the opportunities to expand our Buyout business beyond Europe, particularly as we build Group-wide experience in Asia.

Growth Capital

Our Growth Capital business targets investments of between €10 million and €150 million, across a broad range of sectors, business sizes and funding needs. We aim to invest in between 20 and 30 such transactions per year and it is our strategy to continue to grow the average size of investment.

Growth capital investments typically involve 3i acquiring substantial minority stakes in 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 shareholders.

Success in growth capital is increasingly driven by deep sector knowledge 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.

To date, our Growth Capital business has focused on the European and Asian markets where we have strong networks and relationships and see good opportunities to invest. During the year, we extended our reach by entering the US market.

The competitive environment in the growth capital market is more attractive than in the buyout market. Additionally, not all private equity funds' mandates provide the freedom to make minority investments. Our permanent capital differentiates us from other private equity investors, enabling us to make not only minority investments, but provide more flexible longer-term funding.

A dedicated infrastructure team has also been created within this business line with the goal of building a high-quality portfolio in this asset class. Our investment strategy here is threefold: direct investment in infrastructure projects; investment in infrastructure funds; and creating portfolios of infrastructure assets to bring to the market.

Venture Capital

Our Venture Capital business is focused on early and late-stage technology investing and targets investments in the range of €2 million to €50 million. The four main sub-sectors are: healthcare, communications, software and ESAT (Electronics, Semiconductors and Advanced Technologies).

The main geographic focus continues to be Europe and the US, though we have made venture investments in Asia. As venture businesses typically compete globally, each investment opportunity is reviewed by reference to the relevant global sub-sector's competitive landscape.

We work closely with each company we invest in to create a route map to becoming a scalable, successful business. We are a selective, active investor and we sit on the boards of the majority of companies in which we invest. We work in partnership with our investee management teams to add value by utilising 3i's global network of relationships. Through these relationships, we will often introduce new partners, customers and suppliers, and because our network is international, we can help young businesses to bridge the gap to new markets.

Our Venture Capital business has a prominent position in Europe with a strong track record of investment and divestment. Competition is strong in markets such as the UK, where many US firms are active. However, we continue to be well placed here and in other European venture markets. The US market is highly competitive but our global network, sector focus and international offering position 3i well alongside local firms.

Our markets

Europe

Europe is our principal geographic market, with the majority of our assets and investment activity being conducted in this region. Our business strategy is focused on harnessing our strong regional presence and deep sector experience.

2005 was a record year for the market, with the level of fundraising being twice that of the previous year and total investment increasing by 39%. A number of substantial buyout deals in the UK and across continental Europe were a major contributor to this record level of activity.

European buyout investment increased by 44%, driven by increased M&A and secondary market activity, the return of trade buyers and improved IPO markets.

Activity levels in the growth capital market in 2005 were similar to 2004, although this market presents an excellent opportunity as the economy continues to restructure, sectors consolidate and companies seek to expand internationally.

The venture market is showing increased levels of investment and capital market activity.

The year also saw divestments in Europe at record highs as favourable exit conditions were prevalent. The return of trade buyers, improved IPO markets, secondary sales and increased M&A activity were all strong sources of exits.

Asia

This region comprises a number of stand-alone markets and each market has very different characteristics. Asian markets are in the growth phase and forecast macroeconomic growth rates make this a particularly attractive region for private equity investment.

At the present time, Asia is predominantly a growth capital market for 3i. However, we expect to develop Buyout and Venture Capital teams in the longer term.

Currently, India and China represent the highest potential private equity markets, although we will seek opportunities to develop our business in Japan, South Korea, and South East Asia.

In 2005 the Asian private equity industry saw a very significant increase in incoming funds compared to 2004, with India leading the way. Investment increased 29%, with growth capital returning to prominence. Japan accounted for the largest proportion of capital returned to investors, followed by India and China. IPOs were the most preferred exit route, making up 50% of divestments, although trade sales remained the dominant exit route in Japan.

The US

Venture capital has been our focus in the US, where we have invested in both early and late-stage technology companies. During the year, we recruited a Growth Capital team to take advantage of the opportunities in this market and complement our investment teams in Europe and Asia.

The US continues to be the largest and most attractive venture capital market in the world. The market is characterised by a high level of competitiveness, access to technology and clusters of innovation, combined with significant numbers of serial entrepreneurs. Our leading competitors are typically niche partnerships operating domestically.

US venture capital investing in 2005 rose to its highest level since 2001. Market activity was based on the strong fundraising environment of 2004 and 2005, which contributed to increased investment levels. Improved exit markets, particularly for venture-backed companies, was another important contributor.

Group financial review

Total return

3i achieved a total return for the year to 31 March 2006 of £831 million, which equates to a 22.5% return on restated opening shareholders' funds (2005: 15.2%). A key feature of this return is the very strong level of realised profits on disposal of investments where, throughout the year, we have benefited from good market conditions for sales.

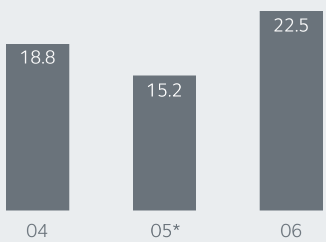
Table 1:
Total return

	2006 £m	2005 (as restated)* £m
Realised profits on disposal of investments	**576**	250
Unrealised profits on revaluation of investments	**245**	245
Portfolio income	**232**	232
Gross portfolio return	**1,053**	727
Net carried interest	**15**	(64)
Fund management fees	**24**	30
Operating expenses	**(211)**	(177)
Net portfolio return	**881**	516
Net interest payable	**(17)**	(42)
Exchange movements	**47**	13
Movements in the fair value of derivatives	**(78)**	13
Other	**19**	(2)
Profit after tax	**852**	498
Reserve movements (pension, property and currency translation)	**(21)**	3
Total recognised income and expense ("Total return")	**831**	501

*As restated for the adoption of IFRS.

Total return comprises the total recognised income and expense as stated as a percentage of opening shareholders' funds.

Total return by year (%)
to 31 March



*As restated for the adoption of IFRS.

As indicated in table 2, we have generated a very good level of gross portfolio return of £1,053 million (2005: £727 million), representing 24.4% on opening portfolio value (2005: 16.7%). Each of our core business lines has generated higher returns, with Venture Capital showing the most improved result over last year. Buyouts and Growth Capital are operating at the top end of their long-term target ranges, with returns of 29% and 26% respectively.

Table 2:
Return by business line (£m)

	Buyouts		Growth Capital		Venture Capital		SMI		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005 (as restated)*
Gross portfolio return	**447**	301	**341**	285	**128**	76	**137**	65	**1,053**	727
Return as % of opening portfolio	**29%**	20%	**26%**	23%	**17%**	11%	**18%**	7%	**24%**	17%
Net portfolio return									**881**	516
Return as % of opening portfolio									**20%**	12%
Total return									**831**	501
Total return as % on opening shareholders' funds									**22%**	15%

*As restated for the adoption of IFRS.

The Group's gross portfolio return of 24% compares with 17% in 2005. After costs and carried interest, the net portfolio return is 20% (2005: 12%). The reduction of 4% from the gross level is below our anticipated range of 5% to 6%, as net carried interest benefited from significant carry receivable in the year.

Through gearing the balance sheet to an appropriate level, we would expect to enhance total return on opening shareholders' funds by some 4% from the net level. However, given the low level of gearing in our opening balance sheet, the benefit from leverage was below our long-term expectation.

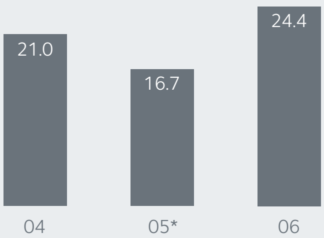
Gross portfolio return

The chart below sets out the gross portfolio return for the Group for the past three financial years. This continued good performance reflects both the focus and discipline of our investment teams and favourable market conditions through the year.

Gross portfolio return comprises the income and capital return (both realised and unrealised value movement) generated from the portfolio and is expressed as a percentage of opening portfolio value.

2004 has been restated as unrealised currency movements are no longer included within gross portfolio return.

Gross portfolio return by year (%)
to 31 March



*As restated for the adoption of IFRS.

Investment

3i invested a total of £1,110 million in the year, significantly up on the £755 million invested in 2005. Having entered the year with a very strong pipeline of new opportunities, some significant individual investments were made in the first half, including NCP (£96 million) and Giochi Preziosi (£61 million). The split of investment across our regions reflected our increasingly international focus, with 63% invested outside the UK. Investment, including co-investment funds, totalled £1,322 million. Consistent with our strategy, the most notable increase by business line was within Growth Capital.

Across the Group we invested in 58 new assets in the year (2005: 67). We also increased our investment in established funds to gain exposure to new or emerging markets. We invested a total of £111 million (2005: £26 million), 10% of our total outlay, into these externally managed funds. This included five new funds into which we committed £242 million (of which £97 million was invested during the year), the largest of these being the I^2 infrastructure fund (£79 million invested).

The average investment size in the other 53 new assets was £15 million (2005: £8 million), in line with our strategy of increasing deal size within the "mid-cap market" segment.

Table 3:
Investment by business line and geography (£m)

	UK		Continental Europe		US		Asia		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Buyouts	**203**	193	**248**	145	**–**	–	**–**	–	**451**	338
Growth Capital	**172**	83	**234**	149	**–**	3	**91**	28	**497**	263
Venture Capital	**31**	50	**55**	44	**70**	48	**–**	1	**156**	143
SMI	**3**	8	**3**	3	**–**	–	**–**	–	**6**	11
Total	**409**	334	**540**	341	**70**	51	**91**	29	**1,110**	755

Realisations and realised profits

Realisation proceeds for the year were £2,207 million, an increase of 70% over 2005. The favourable market conditions experienced in the first six months continued throughout the second half, enabling strong realisations across all business lines (shown in table 4). We also made further progress in selling down the SMI portfolio, realising £268 million from 278 investments. In total, 38% of our opening portfolio value was realised during the year.

In continental Europe realisations totalled £891 million (2005: £365 million), reflecting the maturity of the portfolio which we have built up in this region.

Realisations were made at a profit over opening carrying value of £576 million (2005: £250 million), representing an uplift on sale of 35%, and are stated net of write-offs of £66 million (2005: £37 million).

During the year, 15 of our portfolio companies achieved IPOs across nine different markets and £229 million of realisation proceeds were raised through sales at the time of flotation or subsequently. Sales from other quoted portfolio companies generated proceeds of £143 million.

Cash proceeds have also been generated through refinancing portfolio businesses where we have realised £168 million and through secondary buyouts, where we have sold 10 assets for £404 million.

Table 4:
Realisation proceeds by business line and geography (£m)

	UK		Continental Europe		US		Asia		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Buyouts	**406**	354	**471**	148	**–**	3	**–**	–	**877**	505
Growth Capital	**453**	327	**293**	103	**43**	7	**66**	6	**855**	443
Venture Capital	**89**	82	**84**	51	**33**	23	**1**	–	**207**	156
SMI	**225**	134	**43**	63	**–**	1	**–**	–	**268**	198
Total	**1,173**	897	**891**	365	**76**	34	**67**	6	**2,207**	1,302

Unrealised value movement

The unrealised profit on revaluation of investments was £245 million (2005: £245 million). An analysis of the components of this return is given in table 5.

Table 5:
Unrealised profits/(losses) on revaluation of investments

	2006 £m	2005 (as restated)* £m
Earnings multiples[1]	**41**	40
Earnings	**95**	20
First-time uplifts[2]	**70**	149
Provisions[3]	**(62)**	(66)
Up rounds	**3**	36
Uplift to imminent sale	**97**	101
Other movements on unquoted investments	**(29)**	(45)
Quoted portfolio	**30**	10
Total	**245**	245

*As restated for the adoption of IFRS.

1 The weighted average earnings multiple applied to investments valued on an earnings basis increased from 12.0 to 12.2 over the year.
2 The net valuation impact arising on investments being valued on a basis other than cost for the first time.
3 Provisions against the carrying value of investments in businesses which may fail.

The aggregate attributable earnings of investments valued on an earnings basis at both the start and end of the year increased by 5%, giving rise to a value increase of £95 million (2005: £20 million).

Assets which were revalued on an imminent sale basis generated value uplifts of £97 million, reflecting the good realisations pipeline at the year end.

Portfolio income

Portfolio income of £232 million (2005: £232 million) includes reduced depreciatory dividends (arising on the sale of more mature assets), offset by increased interest income from a number of new higher-yielding investments. Negotiation fees for new investments have risen with increased investment levels.

Net carried interest

Carried interest payable for the year was £64 million, which is offset by carry receivable of £79 million.

Carried interest payable is broadly in line with last year's level, despite the increase in proceeds, as a number of realisations were from early vintages with no associated carry schemes, or from carry schemes which have yet to reach the hurdle at which carry payable is accrued.

Carry receivable of £79 million relates primarily to Eurofund III, 3i's 1999 pan-European fund, whose cumulative performance in the first half passed through the point at which carried interest receivable within 3i's financial statements is triggered. The accrual at 31 March 2006 has been calculated on a fair value basis and includes carry receivable relating to realised and unrealised value increases arising on assets in more recent vintages, including Eurofund IV.

Costs

Operating expenses totalled £211 million (2005: £177 million). The increase over last year reflects higher variable remuneration costs arising on the improvement in total returns and costs associated with implementing new strategic initiatives. Operating expenses include a charge in respect of share-based payments, to reflect the fair value of options and other share-related rewards granted to employees, of £8 million (2005: £6 million).

Net interest payable for the year was £17 million, reflecting the considerable fall in net borrowings resulting from our net realisation proceeds and an increase in the proportion of borrowing in non-sterling currencies for which interest rates were more favourable during the year.

Other movements

Unrealised value movements in the fair value of derivatives of £(78) million were recognised in the income statement for the first time, having adopted IFRS. £(75) million of this movement relates to the valuation of the equity derivative embedded in the €550 million 2008 Convertible Bond. The movement is the product of a number of factors, the most significant of which was the increase in the Company's share price of 40% in the year.

Exchange movements of £47 million arose in respect of the US dollar denominated investment portfolio. As the dollar strengthened relative to sterling, the currency risk relating to this portfolio is now substantially hedged.

Cash flows

Net cash inflow for the year was £550 million, reducing net borrowings, including the Convertible Bond, to £56 million at 31 March 2006 (2005: £545 million).

During the year, capital was returned to shareholders through the payment of £245 million by way of a special dividend of 40.7p per share and a further £222 million of on-market share buy-backs, as approved by shareholders at an Extraordinary General Meeting following the 2005 Annual General Meeting.

Capital structure

3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash. In managing our capital structure, we seek to balance the current needs of the business with our ability to support new business growth. Total shareholders' funds at 31 March 2006 were £4,006 million (2005: £3,699 million), the main components being capital reserves of £3,110 million, revenue reserves of £263 million and share capital and share premium of £668 million.

Total Group borrowings at 31 March 2006 were £1,474 million, which is repayable as follows: £231 million, less than one year; £643 million, between one and five years; and £600 million, greater than five years. At the year end, 3i had committed and undrawn borrowing facilities of £488 million, and cash and liquid assets totalling £1,955 million. Additionally, as noted above, in 2003, 3i issued a €550 million Convertible Bond due in 2008.

Gearing

3i's listed status and permanent capital structure enables the Group to enhance returns to shareholders through leveraging our equity. The Board's view is that a gearing ratio of debt to shareholders' funds set between 30% and 40% is appropriate across the cycle, given the current investment profile.

Despite growing our investment by 47% and returning £467 million of capital to shareholders, during the year the exceptionally high level of realisations caused gearing at 31 March 2006 to fall to 1% (2005: 15%).

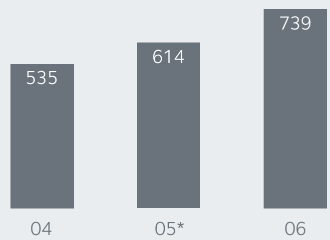
Taking account of future cashflow projections and the development plans of the business, the Board has proposed a further return of £700 million by means of a bonus issue of listed B shares accompanied by a share consolidation designed to maintain comparability of share price and earnings per share. This is currently expected to take place in July 2006.

Growth in diluted net asset value

Diluted net asset value ("NAV") per share was 739p at 31 March 2006, which compares with 614p at 31 March 2005, an increase of 125p, reflecting the strong results for the year.

Diluted NAV shows the net assets attributable to each share in issue after adjusting for the effect of share options and other instruments convertible into shares.

Diluted NAV per share by year (pence) to 31 March



*As restated for the adoption of IFRS.

Portfolio

The value of the portfolio at 31 March 2006 was £4,139 million (2005: £4,317 million). As shown in table 6, the reduction in portfolio value resulted from the high level of realisations in the year. Other movements include transfers of assets into the portfolio previously held through joint ventures and the currency movement in the year.

Table 6:
Summary of changes to investment portfolio

	2006 £m	2005 (as restated)* £m
Opening portfolio	**4,317**	4,362
Investment	**1,110**	755
Realisation proceeds	**(2,207)**	(1,302)
Realised profits on disposal of investments	**576**	250
Unrealised profits on revaluation of investments	**245**	245
Other movements	**98**	7
Closing portfolio	**4,139**	4,317

*As restated for the adoption of IFRS.

Charts A and B show the portfolio value analysed by business line and geography. Chart C shows the age profile of the portfolio.

At 31 March 2006, 6% of the portfolio value was held in investments in quoted companies (2005: 5%).

The number of investments in the portfolio continues to fall, reflecting the high number of realisations in the year, our policy to seek investment opportunities in fewer larger deals and our strategy to reduce portfolio numbers within SMI. At 31 March 2006, the number of investments stood at 1,087 (excluding SMI: 561), down from 1,502 (excluding SMI: 695) at the beginning of the year.

Chart A: Portfolio value by business line (%)
as at 31 March 2006

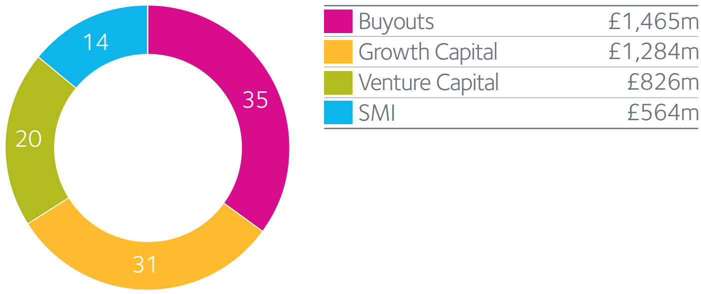


Chart B: Portfolio value by geography (%)
as at 31 March 2006

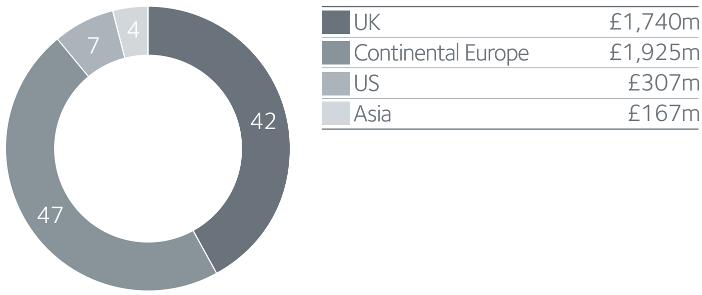
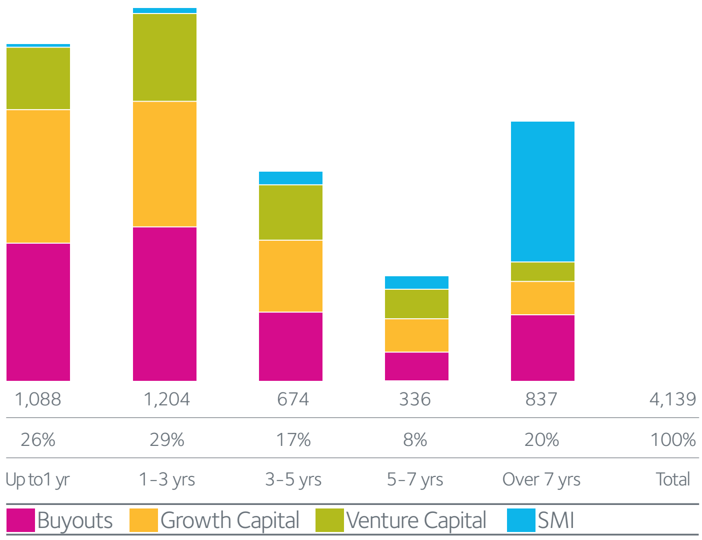


Chart C: Portfolio value by age (£m)
as at 31 March 2006



Accounting policies

As a result of the Group's adoption of IFRS, certain accounting policies have been amended. Prior year figures have been restated so as to provide meaningful comparison with the results for the year to 31 March 2006.

The major changes are as follows:

- derivative financial instruments are now held at fair value and any movements in value taken to the income statement;
- a charge is made in the income statement in respect of share-based payments based on the intrinsic value of awards at grant date;
- foreign currency items in the Group's income statement are converted at the actual exchange rate and not the year end rate;
- dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

There have been no significant changes to 3i's valuation policy in the year. However, to comply with IFRS, discounts are no longer applied to market prices and quoted investments are valued at bid price rather than mid price.

Buyouts

"The Buyout business has delivered another successful year, with a gross portfolio return of 29% and record levels of realisations. We face a highly competitive market but the strength of our deal flow and execution capabilities enable us to find exciting investment opportunities across Europe."

Jonathan Russell Managing Partner

29%

Gross portfolio return on opening portfolio value

£447m

Gross portfolio return

Realised profits of £208 million contributed strongly to the achievement of a gross portfolio return of £447 million. Portfolio health is good with unrealised value growth of £124 million.

We have remained highly selective with respect to new investment, which at £451 million demonstrates again 3i's market access across Europe.

Financial highlights (£m)
for the year to 31 March 2006

Gross portfolio return	447
Investment	451
Realisation proceeds	877
Realised profit	208
Unrealised value movement	124
Portfolio income	115

Gross portfolio return

The Buyout business generated a gross portfolio return of 29% for the year to 31 March 2006 (2005: 20%), which is at the top end of our target return range across the economic cycle. The business has now achieved or exceeded its target in each of the last three financial years through a combination of investment discipline and a favourable market environment.

Investment and realisations

Investment (excluding third party co-investment funds) for the 12 months to 31 March 2006 was £451 million (2005: £338 million). Investment levels were good, particularly in the first six months of the year, when the pipeline for new investment was exceptional. The lower level of investment in the second half reflects the continued competitive conditions in the European buyout market. Despite these competitive conditions, the business generated significant deal flow through its pan-European origination capability.

Realisations (excluding third party co-investment funds) for the same period were very strong with £877 million of realisation proceeds being generated (2005: £505 million). This reflected the underlying quality of the assets in the portfolio and the continued buoyant financial markets.

Portfolio health

The underlying health of our Buyout portfolio has been good since the new business model was introduced in 2001. The strong performance of the portfolio is underpinned by the low loss rate that we have seen on our investments in Eurofunds III and IV, which at the year end stood at 3% of investment cost.

Fund management

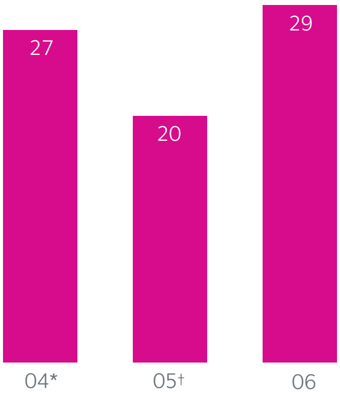
The third party co-investment funds that 3i raises are co-invested alongside our own capital when financing buyouts. In the year to 31 March 2006, 3i earned fee income of £24 million (2005: £27 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of the performance of these funds. During the year, 3i recognised £79 million of carry receivable which relates primarily to Eurofund III, 3i's 1999 pan-European Buyout fund.

Our Buyout business is currently investing Eurofund IV, the €3.0 billion fund that was raised in 2003. The fund was 75% committed at 31 March 2006 and, consistent with industry fund raising practices, 3i intends to raise its Eurofund V mid-market buyout fund during the financial year ending 31 March 2007.

Long-term IRRs

The strong IRRs achieved on investments in the last five Buyout vintages reflect our commitment to high-quality investment. Favourable exit conditions and the health of our ongoing portfolio have seen recent vintages performing well ahead of our long-term targets for the business. The most notable successes from the last five vintages were the sales of Yellow Brick Road, Go-Fly, Westminster Healthcare and Betapharm.

Gross portfolio return by year (%)
to 31 March



*Restated to exclude unrealised currency movements.
†Restated for the adoption of IFRS.

Long-term IRRs (£m)
years to 31 March

Buyouts	Total investment	Return flow	Value remaining	IRR to date
2006	370	5	374	3%
2005	321	99	363	38%
2004	289	292	192	32%
2003	256	419	190	49%
2002	186	402	45	61%

Note: For an explanation of IRRs, please see pages 98 to 99.

NCP

New investment – UK – support services

In September 2005 3i and funds completed the £555 million buyout of NCP, the UK's leading parking services and traffic management company.

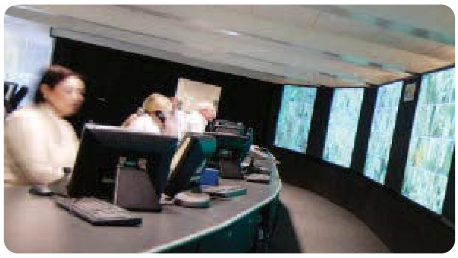
With over 800 sites and more than 5,000 employees, NCP provides services ranging from city centre car park management and airport parking through to providing outsourced traffic management services for local and central government.

3i's knowledge of the business and relationship with the management team were critical in enabling it to win the auction process for this secondary buyout.

Long-term growth in car usage and increased local authority outsourcing are key drivers of NCP's growth. NCP's brand, synonymous with parking in the UK, reinforces the credibility of the business in winning contracts and aids diversification into new services.

3i has utilised its sector experience in support services and outsourcing – through investments in companies such as Keolis – to work closely with NCP. 3i also identified Mike Jeffries, former Chief Executive Officer and Chairman of WS Atkins, as Chairman for NCP.

NCP has a very high success rate in winning new contracts and, since the buyout, has been awarded all the major contracts it has tendered for. Revenue for the year ending December 2005 was £439 million.



Carema

New investment – Nordic – healthcare

3i and funds invested €70 million in the buyout of Carema Vård och Omsorg AB, a leading Nordic healthcare services company in July 2005. Carema provides primary, specialist, disabled and elderly care as well as staffing and, from its formation in 1996, grew to a €300 million business in 2005.

Ageing populations and rising patient expectations, combined with technological advances and pressures on government funding, are creating opportunities for private entrepreneurs to work in partnership with governments to deliver capacity, efficiency and high-quality care.

The Carema investment case was to back a highly responsible, growth-oriented team in a growing market.

3i's in-depth experience and track record in the healthcare sector was not only convincing to management but has been key in adding value post investment. 3i previously backed Westminster Health Care, one of the largest UK high-quality care home operators.

Carema has recently strengthened its position further with two acquisitions. Medihem, a high-quality nursing home operator in the Stockholm area, was acquired in December 2005.

In March 2006, with 3i's support, Carema acquired Finland's largest private healthcare provider, Mehiläinen. Together the two companies, which continue to operate under separate brands, will create one of the largest community healthcare entities in Europe with combined revenue of around €490 million.

SR Technics

Buy-and-build – Switzerland – aviation services

3i led the €425 million MBO of Zurich based SR Technics (“SRT”) in late 2002. SRT was originally the maintenance and engineering division of Swissair, and was put up for sale when its parent company went into administration. Despite a challenging market environment, 3i recognised significant potential for SRT’s management to capitalise on its leading industry reputation and extend the customer base.

3i’s local presence in Zurich, successful track record in the aviation sector, and its ability to source a highly experienced chairman, Frank Turner, were all key in securing this investment.

Post completion, 3i and management have pursued a buy-and-build programme, transforming SRT into the world-leading independent provider of integrated technical and fleet management services for commercial aircraft. This was achieved through the acquisition of its major competitor, FLS Aerospace, in a €140 million transaction in June 2004.

SRT subsequently refinanced the business with a US$325 million asset based debt facility in June 2005 and signed up easyJet in a US$1 billion, 10 year contract. 3i’s long-standing relationship and credibility with easyJet was a contributing factor.

The company has also built up a significant presence in the high growth areas of Asia and the Middle East. It has recently signed a joint venture with Shanghai Airport and won contracts with China Eastern, Vietnam Airlines and signed a MOU for a five year, US$750 million total fleet management contract with Gulf Air, the national carrier of Bahrain and Oman.

With over 5,000 employees, SRT reported total sales of €850 million and EBITDA of €95 million in 2005 and has enjoyed a normalised organic annual turnover growth of 15% since the buyout – more than double the sector growth rate.

Growth Capital

"An excellent year for our Growth Capital business. Operating on an integrated basis across the world enabled us to grow investment and returns as well as increase the value that we add to our portfolio. We were also able to raise our average size of investment.

The further development of our business in Asia and the recent establishment of our infrastructure and US teams provide additional stimulus for the coming year."

Michael Queen Managing Partner

26%

Gross portfolio return on opening portfolio value

£341m

Gross portfolio return

A tripling of our investment in Asia, strong growth in our investment in continental Europe and a good start from our infrastructure team enabled us to grow investment by 89% overall.

The healthy market for realisations and the quality of our portfolio enabled us to almost double realisation proceeds and increase gross portfolio return to 26%.

Financial highlights (£m)
for the year to 31 March 2006

Gross portfolio return	341
Investment	497
Realisation proceeds	855
Realised profit	232
Unrealised value movement	60
Portfolio income	49

Gross portfolio return

The Growth Capital business generated a gross portfolio return of 26% to 31 March 2006 (2005: 23%). This is the third consecutive year that the Growth Capital business has generated returns at the higher end of its return objectives.

Investment and realisations

Investment for the 12 months to 31 March 2006 was £497 million (2005: £263 million). The increase in investment was driven by several factors, including a focus on larger investments and a good contribution from our new infrastructure team. During the year, 22 new investments were made at an average of £20 million (2005: £6 million).

Included in the investment total were investments of £108 million made in other funds including I^2, the UK infrastructure fund, and CDH China Growth Capital Fund II.

Realisation proceeds of £855 million were very strong and significantly higher than last year (2005: £443 million). This strong performance reflects the underlying quality of the assets in the Growth Capital portfolio and the continued buoyant financial markets.

Regionally, the UK accounted for 53% of Growth Capital realisations, continental Europe accounting for 34% at £293 million was up from £103 million in 2005. Asia delivered £66 million of Growth Capital realisations (2005: £6 million).

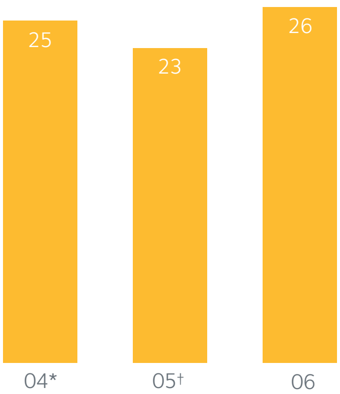
Portfolio health

The underlying health of our Growth Capital portfolio is good. At 31 March 2006, 84% of our investments were classified as healthy, against a three year rolling average of 74%. This reflects improved investment disciplines combined with investing in larger and more established businesses in our recent vintages.

Long-term IRRs

Since the new business model was implemented, we have seen good progress against our IRR targets for Growth Capital. IRRs in the three vintages from 2003 to 2005 have produced returns that exceed our annual vintage targets, while the 2006 vintage will need time to show its full potential. Petrofac, Focus Media and Williams Lea have produced excellent results and helped to underline the quality of our recent investment performance.

Gross portfolio return by year (%)
to 31 March



*Restated to exclude unrealised currency movements.
†Restated for the adoption of IFRS.

Long-term IRRs (£m)
years to 31 March

Growth Capital	Total investment	Return flow	Value remaining	IRR to date
2006	430	35	404	1%
2005	170	55	198	32%
2004	312	270	159	21%
2003	220	256	103	22%
2002	421	400	110	8%

Note: for an explanation of IRRs, please see pages 98 to 99.

Soflog

New investment – France – logistics

In October 2005 3i invested €23 million in Soflog, the French industrial logistics specialist. 3i initiated the opportunity through a direct marketing approach to Nicolas Nonon, Soflog's Managing Director, two years beforehand.

This 50-year old family company has expertise in industrial logistics for international equipment manufacturers and operates a network of 27 sites in France.

As an active minority shareholder, 3i has utilised its in-depth knowledge of the European logistics sector to add value to Soflog in a number of areas, including the recruitment of a chairman and chief financial officer.

3i also supported Soflog in its acquisition in March 2006 of Télis, enabling Soflog to double its size immediately with a combined global turnover of €140 million per annum from 50 local sites.

Infrastructure Investors LLP

New investment – UK & Europe – infrastructure

In June 2005 3i committed £150 million to Infrastructure Investors LLP ("I^2"), alongside I^2's original founding investors, Barclays Private Equity and Société Générale. This brought total fund commitments to £450 million.

Established in November 2003, I^2 has built up a portfolio of 31 operating infrastructure projects in the health, education, transport and Ministry of Defence sectors. Assets include stakes in the DLR Lewisham extension, extensions to both King's College and St George's hospitals in London and several waste water treatment facilities in the north of Scotland.

3i was attracted to I^2's portfolio, experienced management team, deal flow and excellent relationships in the PFI market. In addition, the underlying asset base of the I^2 portfolio is operationally robust and cash generative, with cash flows supported principally by long-term quasi-government covenants.

3i is an active investor in the infrastructure market in its own right, with an in-house team of seven sector specialist investors, and recently invested in Alpha Schools Highland, a project to deliver 10 new schools in the Scottish Highlands.

Investing in I^2 provides a platform for 3i to increase its participation in a growing portfolio of PFI assets in parallel with its increasing direct investment activity.

Petrofac

Realisation – UK – oil, gas and power

In October 2005 3i realised over £115 million through the IPO on the London Stock Exchange of Petrofac, the international oil and gas facilities service provider, at a market capitalisation of £742 million.

3i originally invested £22 million for a 16% stake in May 2002. The realisation delivered a money multiple of 5.2 times and an IRR of 64%.

3i's funding supported the company during a period of rapid growth, helping Petrofac transform itself from an engineering procurement construction contractor into a total integrated facilities management solutions provider.

In addition, 3i introduced Michael Press as an independent non-executive director and Keith Roberts, the Chief Financial Officer.

3i funded 36% of all European oil and gas private equity deals from 2003 to 2005 and manages an investment portfolio of 18 companies in the exploration and production and service sectors. Actively utilising this sector knowledge, 3i was able to introduce another 3i-backed company, training business RGIT Montrose, to Petrofac, which it subsequently acquired in February 2004.

Nimbus

New investment – Asia – media

In August 2005 3i entered the Indian market with a US$45 million investment in Nimbus Communications. This was the largest private equity investment to date in India's fast-growing media and entertainment industry.

Founded by Executive Chairman Harish Thawani in 1987, Nimbus is recognised as one of the world's leading producers and managers of media rights for cricket. Nimbus is also a leading Indian language TV and movie producer and has interests in digital content and film distribution.

Headquartered in Mumbai, the company has operations in India, Singapore, UK, South Africa and the Caribbean.

3i's global media expertise and its local execution skills were key to winning the mandate for this investment.

3i's extensive media sector knowledge will enable it to add strategic value to a business with an excellent position in a high-growth market and ambitious organic expansion and acquisition plans.

Venture Capital

"Operating as a single global team, sharing knowledge and experience, and working actively with our colleagues in other parts of the Group continues to provide 3i's Venture Capital business with significant competitive advantage. This advantage has supported a growth in returns, in new investment and, I believe, has helped to further strengthen our reputation and recognition in the key venture markets in Europe and the US."

Jo Taylor Managing Partner

17%

Gross portfolio return on opening portfolio value

£128m

Gross portfolio return

An improved gross portfolio return of 17% was driven by increased realisation profits arising from healthy M&A and IPO markets for young technology businesses, and the attractiveness of our portfolio to those markets.

The growth in new investment from £143 million to £156 million was encouraging and further demonstration of the attractiveness of our approach to serial entrepreneurs, high-growth companies and their large corporate partners.

Financial highlights (£m)
for the year to 31 March 2006

Gross portfolio return	128
Investment	156
Realisation proceeds	207
Realised profit	72
Unrealised value movement	51
Portfolio income	5

Gross portfolio return

The Venture Capital business generated a gross portfolio return of 17% to 31 March 2006 (2005: 11%). This improvement in performance was driven by a number of factors, most importantly organisational changes made to integrate the team into a truly international partnership across Europe and the US and enhanced portfolio management disciplines.

As returns have improved in our Venture business, so has the amount of investment in late-stage technology increased. When compared with early-stage technology, late-stage has lower return characteristics, but considerably less volatility. In the year to 31 March 2006, 44% of our Venture Capital investment was in late-stage and we anticipate that this percentage could rise to as much as 70% in the near term.

We have therefore reviewed the return objectives for our Venture Capital business in the light of this changing mix, and adjusted both the volatility and the overall return objectives as a consequence. The new gross portfolio return objective for the business remains higher than that for Buyouts and Growth Capital at 25%, and vintage year and cyclical volatilities have been set at 15% and 7% respectively.

Investment and realisations

Investment for the 12 months to 31 March 2006 was £156 million (2005: £143 million). It is the team's objective to invest between £175 million and £225 million per annum.

Realisation proceeds of £207 million were 33% higher than last year (2005: £156 million). The increase in realisations reflects an increased appetite of corporate buyers and, to a degree, the public markets for venture capital companies. Six Venture Capital portfolio companies achieved a flotation during the year, with the healthcare, drug discovery and software sectors being particularly active.

Portfolio health

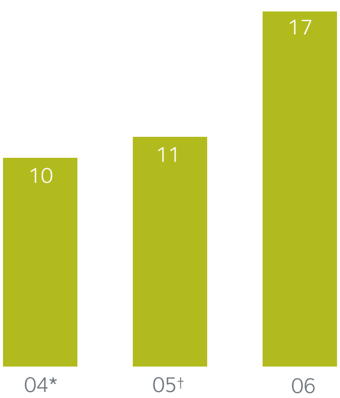
At 31 March 2006, 67% of our Venture investments were classified as healthy, against a three year rolling average of 65%. These levels are consistent with the higher risk return profile of venture capital investing.

Long-term IRRs

As previously noted, our Venture Capital business has increased its focus on late-stage investment and we have correspondingly adjusted our target for this business line's cash-to-cash IRRs to 25%.

The 2002 and 2003 vintages are behind target and we continue to manage this portfolio actively to improve returns. The 2004 vintage is the best performing recent vintage with strong value growth contributing to its success.

Gross portfolio return by year (%)
to 31 March



*Restated to exclude unrealised currency movements.
†Restated for the adoption of IFRS.

Long-term IRRs (£m)
years to 31 March

Venture Capital	Total investment	Return flow	Value remaining	IRR to date
2006	64	–	65	–
2005	63	–	63	–
2004	132	36	181	36%
2003	107	12	49	(19)%
2002	315	72	131	(12)%

Note: for an explanation of IRRs, please see pages 98 to 99.

Business review: Venture Capital

TransMedics

Further investment – US – healthcare

3i led a US$30 million series C round and contributed US$14 million of funding for Massachusetts based TransMedics Inc in February 2006. Having invested in the series B round in 2003, 3i's position grew to a 24.6% equity stake as a result.

Founded in 1998, TransMedics is a medical devices company which has developed a unique system enabling a first in transplantation - a "living organ transplant".

By maintaining organs in a warm, functioning state outside of the body, TransMedics' Organ Care System is designed to optimise organ health and reduce the risk of organ failure. It also allows continuous clinical evaluation, and increases the amount of time an organ can survive outside the body over traditional cold preservation techniques.

3i has been an active investor in TransMedics, working in partnership with the management team and its scientific advisers and using its European relationships to support TransMedics' work with leading transplant centres in the UK and Germany.

TransMedics' technology improves organ availability for the growing population of patients with end-stage organ failure. Recently it enabled a new milestone to be reached in transplant medicine when the world's first beating heart transplant was successfully performed at the Bad Oeynhausen Clinic in Germany.

UbiNetics

Realisation – UK – electronics, semiconductor and advanced technologies

In July 2005 3i sold its remaining investment in UbiNetics to Cambridge Silicon Radio ("CSR"), the leading global provider of Bluetooth technology, which 3i had backed in 1999 and helped float on the London Stock Exchange in April 2004.

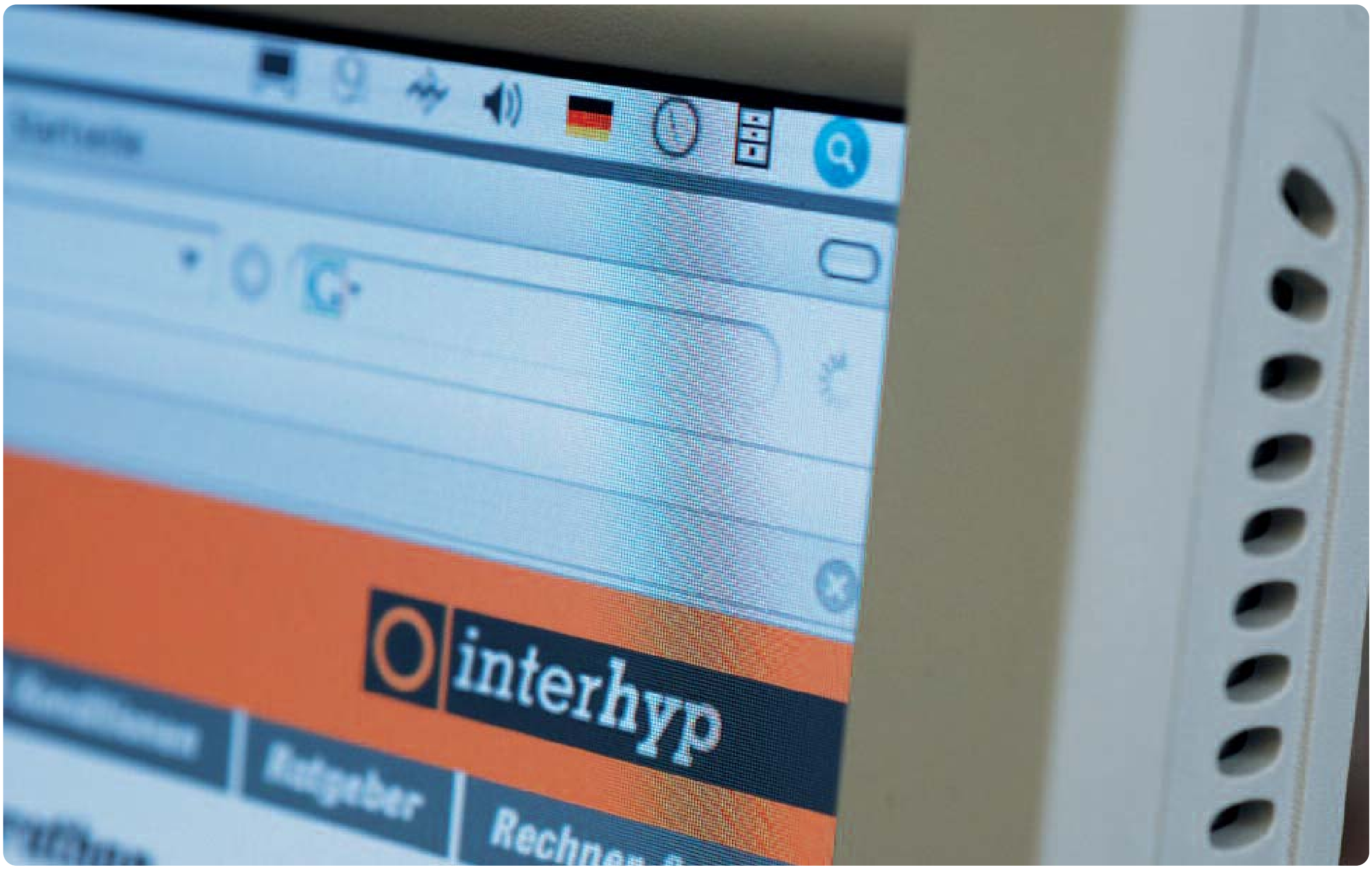
The deal at US$48 million, together with the sale in May 2005 of UbiNetics' test and measurement business to Aeroflex for US$84 million, delivered a total 2.4 times money multiple and an IRR of greater than 75% for 3i in less than 18 months.

UbiNetics, a global supplier of the software and silicon IP for wireless terminals, which drives 3G mobile wireless technology, was founded by PA Consulting Group in 1999. The company grew from just 16 employees at its formation to over 400 employees and a £24 million turnover prior to the disposal.

3i's investment in UbiNetics was part of an ongoing collaboration with PA.

3i invested in the company in 2004, attracted by the huge potential of the 3G market. Laurence Garrett of 3i joined the board as a non-executive director together with John Scarisbrick, who 3i introduced. 3i subsequently helped UbiNetics to recruit a chief financial officer.

Working closely with the board on strategy, 3i was able to identify that the UbiNetics' handset business would be an excellent strategic fit for CSR, in which 3i remains a substantial investor. 3i made the initial introductions between the two companies, actively demonstrating both the value of 3i's network and its sector experience.



Interhyp

Realisation – Germany – financial services

Believing that Interhyp AG possessed the key criteria that 3i seeks in venture investing: a disruptive technology, excellent management and a significant market opportunity, 3i invested €7.2 million for a 17.7% stake in 2000.

When Interhyp successfully floated on the Frankfurt Stock Exchange in September 2005, 3i sold 40% of its equity in the IPO, realising a profit of €14.4 million. 3i made further realisations of €19 million to 31 March 2006 and had a residual stake valued at €38 million.

Founded in 1999, Interhyp has grown to become the leading online (and subsequently offline) mortgage broker in Germany, the largest mortgage market in Europe. It has redefined this highly fragmented industry by combining the benefits of the internet with independent consultancy, providing borrowers with rates which are on average 0.5% below those of traditional branch-based retail banks.

Interhyp's management team has grown revenues since inception in 2000 to €40 million with a 33% EBIT margin. In 2005 new residential mortgage volume exceeded €3 billion.

Risk management

3i has a comprehensive risk management framework which provides a structured and consistent process for identifying, assessing and responding to risks in relation to the Group's strategy and business objectives.

As part of this process, risks are considered across the following broad categories:

External	Risks arising from political, legal, regulatory, economic policy and competitor changes
Strategic	Risks arising from the analysis, design and implementation of the Group's business model, and key decisions on investment levels and capital allocations
Investment	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios
Treasury and funding	Risks arising from (i) uncertainty in market prices and rates, (ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or (iii) inappropriate capital structure
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these

Risk management operates at all levels throughout the Group, across business lines, geographies and professional functions. It is monitored by a combination of the Board, the Audit and Compliance Committee, Management Committee and Risk Committee, supported by the Group Risk Assurance and Audit, and Group Compliance functions. The roles of the Board, Audit and Compliance Committee and Management Committee are described in the Directors' report. The Risk Committee meets four times a year to oversee movements in risk exposures across the Group and recommends appropriate responses. Its membership includes senior representatives from investment and professional services functions.

Given their fundamental significance to the Group, investment and treasury and funding risks are managed by specific processes which are described below.

Investment risk

3i's investment appraisal is undertaken in a rigorous manner. This includes approval by the relevant business line partnerships, and where appropriate, peer review by executives from other business lines, and our international network of industry and sector specialists. Investments over £5 million are presented to an Investment Committee chaired by one of our Group Partners and comprising some of our senior investment executives.

Having made our investment decision, a rigorous process is put in place for managing the relationship with the investee company for the period through to realisation. This can include board representation by a 3i investment executive and regular internal asset review processes.

3i invests across a range of economic sectors. The portfolio is subject to periodic reviews at both the business line and Group levels to ensure that there is no undue exposure to any one sector. The valuation of 3i's unquoted portfolio and opportunities for realisation depend to some extent on stock market conditions and the buoyancy of the wider mergers and acquisitions market.

Treasury and funding risk

3i's funding objective is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets, and that funding needs are met ahead of planned investment.

Credit risk 3i's financial assets are predominantly unsecured investments in unquoted companies, in which the Board considers the maximum credit risk to be the carrying value of the asset. The portfolio is well diversified and, for this reason, credit risk exposure is managed on an asset-specific basis by individual investment managers.

Liquidity risk During the financial year, 3i generated a cash surplus of £1,089 million (2005: £562 million) from its investing activities and cash resources at the end of the period amounted to £1,955 million (2005: £1,199 million). In addition, the Group had available to it undrawn committed facilities of £488 million at 31 March 2006 (2005: £764 million).

Price risk The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. 3i does not hedge the market risk inherent in the portfolio but manages asset performance risk on an asset specific basis.

Foreign exchange risk 3i reports in sterling and pays dividends from its sterling profits. The Board seeks to reduce structural currency exposures by matching assets denominated in foreign currency with borrowings in the same currency. The Group makes some use of derivative financial instruments to effect foreign exchange management.

Interest rate risk 3i has a mixture of fixed and floating rate assets. The assets are funded with a mixture of shareholders' funds and borrowings according to the risk characteristics of the assets. The Board seeks to minimise interest rate exposure by matching the type and maturity of the borrowings to those of the corresponding assets. Some derivative financial instruments are used to achieve this objective.

Corporate responsibility

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; and

– strive for continual improvement and innovation.

Our approach

Philosophy As an international business operating in 14 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. It promotes awareness of these issues across the business through training and communication. It promotes the development of corporate responsibility policies, procedures and initiatives and monitors and reviews their operation.

3i is a constituent of the 2006 Dow Jones Sustainability Index.

Tony Brierley, Chairman of 3i's Corporate Responsibility Committee, is also a member of the Leadership Team of Business in the Environment, the environment programme of Business in the Community, a business-led charity whose purpose is to engage and support companies to improve the impact they have on society.

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 and a log of identified risks is reviewed and updated at meetings of the Committee and significant risks are reported to 3i's Risk Committee. The Committee reports regularly to the Board.

As Chairman of the Committee, Tony Brierley, has specific responsibility for 3i's environmental policies, leading the development of new initiatives and targets and reporting to the Board.

All employees have a responsibility to be aware of, and to abide by, 3i's policies and procedures which have been developed to guide staff and regulate the conduct of the day to day operations of the business. These policies and procedures include 3i's environmental, ethical and social policies, and are available to all employees through 3i's portal, a web-based knowledge system. Employees are encouraged to make suggestions to improve these policies and procedures.

As an investor

Investment policy 3i has a portfolio of over 1,000 investments in businesses across 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; and

– 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 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 may 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.

Investment procedures 3i has policies and procedures to reduce the risks of 3i investing in businesses which operate in an environmentally, ethically or socially unacceptable manner. Details of these policies and procedures may be found on 3i's website at www.3igroup.com. 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 more than 1,600 potential investments were considered and 58 new investments were completed. Over 1,500 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.

During the year, processes were put in place to monitor more closely the number of potential investments in respect of which detailed due diligence was undertaken, and the number of investments in the portfolio reviewed as part of 3i's portfolio management processes, where environmental, social or ethical issues were identified, the nature of the issues identified and action taken as a result. A summary of the results of this monitoring for the year to 31 March 2007 will be reported in the 2007 Corporate responsibility report.

Relationship management 3i's key relationships are with the companies in which it invests, together with the intermediaries, advisers 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 to 31 March 2006, market perception studies were undertaken in the UK, France, Germany, Spain and Sweden. As part of these studies, interviews were conducted with companies in which 3i has invested, potential companies for investment and with intermediaries and advisers with whom 3i deals as part of the investment process. The results of these studies have been used to refine the way 3i interfaces with the companies in which it invests and the markets in which it operates, and to develop further the training of 3i's investment executives.

As a corporate

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

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

In accordance with 3i's core values, individual consultation with employees on matters affecting them, and fair and open communication, are a high priority. During the year, a confidential survey of all staff world-wide was undertaken by Ipsos MORI to ascertain the attitudes of staff towards 3i. 91% of staff participated in this survey. The survey revealed that 3i compared favourably with other leading companies, exceeding the "Ipsos MORI norm" (a database maintained by Ipsos MORI recording average scores achieved by companies against a range of frequently asked questions) in 15 of 21 categories. A high level of employee engagement was disclosed with an overall score of 84%. The survey also revealed high levels of satisfaction, with 90% of staff indicating that they had interesting work, 89% of staff referring to the good working atmosphere at 3i, and high levels of staff morale at 22 points above the Ipsos MORI Top Ten norm. The results of the survey were considered by the Board and senior management and subsequently shared and discussed with individual teams within the business and actions agreed as relevant and appropriate.

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.

Our people
Employee engagement is the extent to which employees are committed to their role, their team and the Group and its objectives. How effectively they work as a result of this commitment and levels of retention are indicators of engagement.

3i supports the European Venture Philanthropy Association and was a founding sponsor in 2004.

EVPA
European Venture Philanthropy Association

Training and development 3i is committed to encouraging the continuous development of the skills of its staff with the objective of maximising the overall performance of the business. Emphasis is placed on work-based learning, with the provision of development opportunities supported by appropriate coaching and mentoring. This is supplemented by more formal training programmes, such as workshops to enhance the board management skills of 3i's investment staff. In addition, investment staff are required to complete an investment training programme on joining 3i, and professional services staff are supported in developing their functional specialisms through external courses, networks and forums. During the year, 185 employees attended internal 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 periodic refresher training. A programme of training is in place to discharge these obligations.

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, a programme of 20 staff workshops, covering all locations world-wide where 3i operates was completed. To follow up on this programme of employee engagement and training, sector-based workshops and training courses have now been developed for investment staff. The objectives of these workshops are to ensure that staff remain fully informed of 3i's corporate responsibility policies, to identify and raise awareness to specific sector or geographical issues and to gain input to the formulation of policy. During the year, two such workshops were held for investment executives in 3i's Oil and Gas and Healthcare sector teams respectively and further workshops are planned.

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. Details of these policies and procedures can be found on 3i's website at www.3igroup.com. A Health and Safety Committee has been established to oversee the application of 3i's health and safety policies and procedures and to consider health and safety risks across the business.

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. High standards of health and safety are applied to staff and sub-contractors and 3i endeavours to ensure that the health, safety and welfare of its employees, visitors, customers, sub-contractors' 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 2006, one minor reportable accident occurred under UK Health and Safety regulations. 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.

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. Details of 3i's procurement policies may be found on 3i's website at www.3igroup.com.

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.

3i helped to found businessdynamics almost 30 years ago and has continued its support throughout this time. In 2005, over 86,000 students benefited from businessdynamics' programmes.

businessdynamics

Bringing business to life for students

3i has continued its financial support to InKinddirect, a charity distributing manufacturers' surplus goods to voluntary organisations. InKinddirect not only helps reduce costs for charities but also helps the environment.

InKinddirect®

a registered charity founded by HRH The Prince of Wales

Environment As a financial services business employing approximately 740 employees world-wide, 3i's direct environmental impact is relatively low. However, 3i measures its own energy and resource usage where practicable and sets targets to achieve improvement. A benchmark against which 3i measures its performance is for CO_2 emissions associated with its office accommodation. During the year, steps were taken to improve the collection and accuracy of data used in support of this measure. As a result, office related CO_2 emissions generated in the year to 31 March 2005 have been reassessed at approximately 6,964 tonnes. Over the two years to 31 March 2007, 3i aims to reduce this total by 6%. In the year to 31 March 2006, CO_2 emissions attributable to office accommodation of approximately 6,763 tonnes were generated. Although this was only a small reduction, the year included only one month of 3i's occupation of new, more energy-efficient offices in London, expected to generate significant savings. 3i also aims to reduce the amount of waste generated per person per week and, where possible, to recycle paper and other office materials. This measure was also distorted by the move of 3i's head office, which generated a temporary increase in waste. Office items and equipment no longer required as a result of this move were, where possible and practical, either donated to charity via InKinddirect or recycled.

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

Corporate responsibility issues and the environment
The principal benchmarks against which 3i measures its direct impact on the environment are for CO_2 emissions; and recycling of paper and other materials.

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 2006, approximately 26% of 3i's charitable donations were matching GAYE donations;

– charities relevant to its corporate activity. For example, 3i founded and supports businessdynamics, a charity which aims to inspire young people to become involved in, and understand business.

Charitable donations made in the UK in the year to 31 March 2006 amounted to £390,570, supporting a variety of different charities with donations up to £35,000.

3i supports Community Links, an innovative inner-city charity running community-based projects in London. Founded in 1977, it now helps over 50,000 vulnerable people a year.

community links

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. 3i was also recognised as one of the best companies on a global basis in respect of its codes of conduct, compliance and anti-crime measures. 3i aims to continue to be included within this Index.

In 2005 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 marketplace management. 3i aims to continue to be included within this Index.

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 maintains 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 in the application of 3i's internal 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.

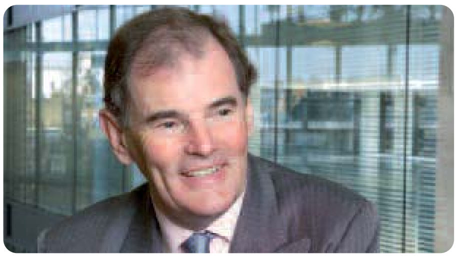
The Corporate Responsibility Committee The Corporate Responsibility Committee comprises Tony Brierley, Company Secretary and Chairman of the Committee, Denise Collis, Group Human Resources Director, Patrick Dunne, Group Communications Director, Douwe Cosijn, Head of Investor Relations, Albert Xu, an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

Board of Directors and Management Committee


Baroness Hogg


Philip Yea


Christine Morin-Postel


Oliver Stocken


Simon Ball


Michael Queen


Dr Peter Mihatsch


Danny Rosenkranz

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. A director of BG Group plc and Carnival Corporation and plc. Deputy Chairman of GKN plc until 12 May 2006. 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 59.

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 and Stanhope Group Holdings Limited. A director of GUS plc, Pilkington plc and Standard Chartered plc. Formerly Finance Director of Barclays plc. Aged 64.

Philip Yea
Chief Executive and executive Director since joining the Company in 2004. A member of the Nominations Committee and the Valuations Committee. A member of the Group's Investment Committee since 2004. A non-executive director of Vodafone Group plc. 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 51.

Simon Ball
Finance Director since April 2005 and member of the Management Committee since joining the Company in February 2005. A member of the Valuations Committee. A non-executive director of Cable & Wireless plc. 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 46.

Dr Peter Mihatsch
Non-executive Director since 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, Alcatel SA and Rheinmetall AG. Formerly Chairman of Mannesmann Mobilfunk GmbH and a member of the management boards of Mannesmann AG and Mannesmann Kienzle GmbH. Aged 65.

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, Pilkington plc and Royal Dutch Shell PLC. 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 59.

Michael Queen
Executive Director since 1997. Managing Partner, Growth Capital. Responsible for Growth Capital since April 2005. Joined 3i in 1987. From 1994 to 1996 seconded to HM Treasury. Appointed Group Financial Controller in 1996 and Finance Director in 1997. A member of the Management Committee and the Group's Investment Committee since 1997. Ceased to be Finance Director on assuming responsibility for Growth Capital investment. A director of Gardens Pension Trustees Limited, a corporate trustee of the 3i Group Pension Plan, and a non-executive director of Northern Rock plc. Past Chairman of the British Venture Capital Association. Aged 44.

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 plc and Pecaso Limited. Formerly Chief Executive of The BOC Group plc. Aged 60.


Sir Robert Smith


Tony Brierley


Jonathan Russell


Fred Steingraber


Denise Collis


Jo Taylor


Chris Rowlands


Paul Waller

Sir Robert Smith
Non-executive Director since 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 61.

Fred Steingraber
Non-executive Director since 2002. A member of the Nominations Committee and the Remuneration Committee. A director of Elkay Manufacturing and John Hancock Financial Trends Fund. A member of the supervisory board of Continental AG. Formerly, Chairman and Chief Executive of AT Kearney, Inc, and a director of Maytag Corporation, Lawter International, Inc, and Mercury Finance, Inc. Aged 67.

Other members of Management Committee

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 Management Committee in 1996. Aged 56.

Denise Collis
Group HR Director. A member of the Management Committee since joining the Company in 2004. Previously employed by HSBC and Standard Chartered plc. Before joining 3i was HR Partner at Ernst & Young. Aged 48.

Chris Rowlands
Managing Partner, Group Markets. A member of the Management Committee and the Group's Investment Committee since re-joining the Company in 2002. Previously employed by 3i from 1984 to 1996. A non-executive director of Principality Building Society. Formerly a Partner of Andersen. Aged 49.

Jonathan Russell
Managing Partner, Buyouts. A member of the Management Committee and the Group's Investment Committee since 1999. Joined 3i in 1986. Formerly Chairman of the European Private Equity and Venture Capital Association Buyout Committee. Aged 45.

Jo Taylor
Managing Partner, Venture Capital. A member of the Management Committee and the Group's Investment Committee since July 2005. Joined 3i in 1984. Responsible for 3i's UK Venture Capital business and has helped co-ordinate 3i's global venture activities since 1999. Chairman of the British Venture Capital Association High Technology Committee and a British Venture Capital Association Council member. Aged 45.

Paul Waller
Managing Partner, Funds. A member of the Management Committee since 1999. A member of the Group's Investment Committee since 1997. Joined 3i in 1978. Past Chairman of the European Private Equity and Venture Capital Association. Aged 51.

Directors' report

This is the Directors' report of 3i Group plc for the year to 31 March 2006 ("the year").

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

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

HM Revenue & Customs has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period to 31 March 2005. 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 by the Financial Services Authority ("FSA") until 27 May 2005, when it relinquished its deposit taking status. 3i Investments plc, a wholly owned subsidiary of the Company, is authorised and regulated by the FSA under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities.

Results and dividends The financial statements of the Company and the Group for the year to 31 March 2006 appear on pages 61 to 88.

Total recognised income and expense for the year was £831 million (2005: £501 million, as restated for IFRS). As part of the arrangements approved by shareholders to return value to shareholders, a special dividend of 40.7p per share was paid on 22 July 2005 in respect of the year to 31 March 2006. A further interim dividend of 5.5p per share in respect of that year was paid on 4 January 2006. The Directors recommend a final dividend of 9.7p per share be paid in respect of the year to 31 March 2006 to shareholders on the register at the close of business on 23 June 2006.

By a deed of waiver dated 9 June 1994, Mourant & Co. Trustees Limited in its capacity as trustee of The 3i Group Employee Trust ("the 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 the Employee Trust (currently 11,311,280 shares).

Operations The Group operates through a network of offices in Europe, Asia and the US. The Group also 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.

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

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

Business review The Chairman's statement on pages 4 and 5, the Chief Executive's statement on pages 6 and 7, the "Our vision" section on pages 8 to 11 and the Business review on pages 12 to 35 report on the Group's development during the year to 31 March 2006, its position at that date and the Group's likely future development. Information fulfilling the requirements of the Business Review can be found in the Business review on pages 12 to 35 and in the Corporate responsibility section on pages 36 to 41, which are incorporated in this report by reference.

Share capital

Pre-consolidation share capital movements The issued share capital of the Company as at 1 April 2005 was 614,409,167 ordinary shares of 50p each. This increased by 268,792 shares to 614,677,959 ordinary shares of 50p each in the period from 1 April 2005 to 10 July 2005 on the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme.

Consolidation of share capital Pursuant to resolutions passed at an Extraordinary General Meeting ("EGM ") of the Company, on 11 July 2005 the issued share capital of the Company, of 614,677,959 ordinary shares of 50p each, was consolidated into 578,520,432 ordinary shares of 53⅛p each.

Post-consolidation share capital movements At the EGM in July 2005, the Directors were authorised to repurchase up to 57,800,000 shares of 53⅛p each in the Company (representing approximately 10% of the Company's issued share capital as at 10 May 2005) until the Company's Annual General Meeting in 2006 or 5 October 2006, if earlier. The Board indicated that it would only use this authority to repurchase Company shares with an aggregate value of approximately £250 million. In the year to 31 March 2006, the Company cancelled 30,186,896 ordinary shares of 53⅛p each which had been purchased pursuant to this authority.

In the period from 11 July 2005 to 31 March 2006, a total of 2,222,966 ordinary shares of 53⅛p were issued (to the trustee of The 3i Group Share Incentive Plan and on the exercise of options under the Group's executive share option plans and The 3i Group Sharesave Scheme).

Accordingly, between 11 July 2005 and 31 March 2006, the consolidated share capital of the Company decreased by 27,963,930 ordinary shares to 550,556,502 ordinary shares of 53⅛p each.

Major interests in shares As at 3 May 2006, 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
Prudential plc and subsidiary companies	6.14	34,716,123
FMR Corporation and Fidelity International Limited and their subsidiary companies	4.95	27,255,702
Legal & General Group	3.85	21,844,391

Directors' interests Details of the Directors' interests in the Company's shares are shown in note 39 to the financial statements on page 88. Save as shown in note 39, no Director had any disclosable interest in the shares, debentures or loan stock of the Company or in the shares, debentures or loan stock of its subsidiaries during the period and there have been no changes in the above interests between 1 April 2006 and 3 May 2006.

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

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

The Board's responsibilities and processes The Board is responsible to shareholders for the overall management of the Group. It determines matters including financial strategy and planning and takes major business decisions. The Board has put in place an organisational structure. This is further described under the heading "internal control". The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

- approval of the Group's overall strategy, strategic plan and annual operating budget;
- approval of the Company's interim and annual financial statements and changes in the Group's accounting policies or practices;
- changes relating to the capital structure of the Company or its regulated status;
- major capital projects;
- major changes in the nature of business operations;
- investments and divestments in the ordinary course of business above certain limits set by the Board from time to time;
- adequacy of internal control systems;
- appointments to the Board and Management Committee;
- principal terms and conditions of employment of members of Management Committee; and
- changes in employee share schemes and other long-term incentive schemes.

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

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

During the year, the principal matters considered by the Board included:

- the Group strategic plan, budget and financial resources;
- the Group's capital structure, balance sheet efficiency and the return of capital to shareholders;
- regular reports from the Chief Executive;
- the recommendations of the Valuations Committee on valuations of investments;
- the Company's share price performance and findings from a shareholder perception study;
- organisational capability, succession planning and findings from a staff survey;
- the establishment of a European Commercial Paper programme;
- establishing a further European Buyout Fund;
- risk management;
- requirements for operating and financial reviews and key performance indicators;
- independence of non-executive Directors; and
- funding of the 3i Group Pension Plan.

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

During the year, there were six meetings of the Board of Directors. The Directors who served throughout the year attended all six meetings save for Mr O H J Stocken who attended five meetings. Mr R W Perry attended the one meeting held before his retirement as a Director on 6 July 2005.

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

The Board concluded that the changes that had been made in the schedule to allow for more strategic discussion had been beneficial and should be continued, including the introduction of a second awayday during the year. Having reviewed the remit and functioning of Committees, the Board decided to continue to maintain the existence of the Valuations Committee, as well as the Audit and Compliance Committee, in order to provide a twice-yearly opportunity to focus on valuation methodology and judgments in advance of the audit of results. The average size of the Company's investments had risen, and changes in the valuation guidelines published by the British Venture Capital Association required a more tailored approach. The Board and the Audit and Compliance Committee also reviewed the functions and membership of the management Risk Committee and supported the broadening of its remit. The Remuneration Committee reviewed policy and decided to consult major shareholders on developments designed to align the Company's systems more closely with the private equity industry and to clarify the framework for share-based awards. Directors concluded that the extra Board time that had been given to consideration of human resource management, career development and succession planning was extremely valuable and should be continued. The Board decided to continue the practice of holding at least one meeting a year away from the Company's head office, in order to enable members to spend time with the executives responsible for building the Company's global capability. It was also decided to continue the process of adding external capability to the Board to match changes in the business and in financial markets.

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

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

The Chief Executive The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive has formed a committee called Management Committee to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises the executive Directors, the Company Secretary, Ms D R Collis, Mr C P Rowlands, Mr J B C Russell, Mr A J M Taylor 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 comprises the Chairman, six other independent non-executive Directors and three executive Directors. Biographical details for each of the Directors are set out on pages 42 and 43. Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball, Dr P Mihatsch, Mme C J M Morin-Postel, Mr M J Queen, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber served throughout the period under review. Mr R W Perry served as a Director until 6 July 2005.

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

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

Directors' independence All the non-executive Directors, 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 has also considered Dr P Mihatsch's non-executive directorships within the Vodafone Group plc group of companies and Mr P E Yea's non-executive directorship of Vodafone Group plc and concluded that this did not affect Dr P Mihatsch's independence.

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 58.

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.

During the year the Directors received training on Directors' responsibilities for the operating and financial review, the new Listing Rules, the Market Abuse Regime and the Company Law Reform Bill. In addition, the non-executive Directors received presentations on the Company's Nordic investment business and on technology investment.

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

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

The Company's Articles of Association provide for:

a) Directors to retire at the first 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 12 July 2006, Mme C J M Morin-Postel, Mr M J Queen and Mr F D Rosenkranz will retire by rotation and, being eligible, offer themselves for reappointment. The Board's recommendation for the reappointment of Directors is set out in the Notice of AGM.

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

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

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

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

Audit and Compliance Committee The Audit and Compliance Committee comprises Mr O H J Stocken (Chairman), Mme C J M Morin-Postel, Mr F D Rosenkranz and Sir Robert Smith, all of whom served throughout the period. All the members of the Committee are independent non-executive Directors. The Board is satisfied that the Committee Chairman, Mr O H J Stocken, has recent and relevant financial experience. During the year, there were five meetings of the Committee all of which were attended by all members of the Committee save for one meeting which was not attended by Mme C J M Morin-Postel.

During the year, the Committee:

- reviewed the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements and received reports on bank covenants, third party liabilities and off-balance sheet liabilities;
- reviewed and recommended to the Board the accounting disclosures comprised in the interim and annual financial statements of the Company and reviewed the scope of the annual audit plan and the audit findings;
- reviewed matters relating to the Group's key performance indicators, the introduction of International Financial Reporting Standards and proposals for operating and financial reviews and enhanced business reviews;
- received regular reports from the internal audit function, monitored its activities and effectiveness, and agreed the annual internal audit plan;
- received regular reports from the regulatory compliance function and Risk Committee, and monitored their activities and effectiveness;
- oversaw the Company's relations with its external auditors including assessing auditor performance and independence, recommending the auditors' reappointment and approving the auditors' fees;
- met with the external auditors and the heads of the internal audit and compliance functions individually, all in the absence of management;
- reviewed the Company's "whistle blowing" policy to ensure that arrangements were in place for staff to raise, in confidence, matters of concern; and
- considered whether matters existed which could give rise to conflicts of interests between Directors and the Company.

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 all of whom served throughout the period. All the members of the Committee are independent non-executive Directors. During the year, there were six meetings of the Remuneration Committee. Mr F D Rosenkranz and Mme C J M Morin-Postel attended all of these meetings, Sir Robert Smith and Mr F G Steingraber attended five meetings and Mr O H J Stocken attended four meetings.

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

Nominations Committee The Nominations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Dr P Mihatsch, Mme C J M Morin-Postel, Mr F D Rosenkranz, Sir Robert Smith and Mr F G Steingraber, all of whom served throughout the period. During the year, there was one meeting of the Nominations Committee which was attended by all members other than Dr P Mihatsch. The terms of reference of the Nominations Committee provide that the Chairman of the Board shall not chair the Committee when dealing with the appointment of the Chairman's successor.

During the year, the Nominations Committee, together with the Board, reviewed the composition of the Board to ensure that the balance of its membership, as between executive and non-executive Directors, and that its profile, in terms of size and length of service and experience of individual Directors, remained appropriate.

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

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

Valuations Committee The Valuations Committee comprises Baroness Hogg (Chairman), Mr O H J Stocken, Mr P E Yea, Mr S P Ball and Dr P Mihatsch, all of whom served throughout the period. Mr M J Queen served as a member of the Committee until 11 May 2005. There were two meetings of the Valuations Committee during the year. The members who served throughout the year attended both meetings, save for Dr P Mihatsch who attended one meeting. Mr M J Queen attended the one meeting held before he ceased to be a Committee member.

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

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

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

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

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

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

The Notice of the AGM held on 6 July 2005 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 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.

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 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 to 31 March 2006 and up to the date of this report. The process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the internal control guidance for Directors on the Combined Code issued by the Turnbull Committee. The process established for the Group includes:

Policies

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

Processes

- appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities;
- a planning framework which incorporates a Board approved strategic plan, with objectives for each business unit;
- formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas, 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 function whose role is to integrate regulatory compliance procedures into the Group's systems;
- well defined procedures governing the appraisal and approval of investments including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post investment reviews;

Verification

- an internal audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management;
- the external auditors who are engaged to express an opinion on the annual financial statements;
- an Audit and Compliance Committee which considers significant control matters and receives reports from 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 co-ordination with the internal auditors, they also review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion.

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

The Group treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group. The Group also provides financial support, 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, co-investment plans and carried interest schemes, which allow executives to share directly in the future profits on investments. Further details of these plans are set out in the Directors' remuneration report. Employees participate in local state or company pension schemes as appropriate to local market conditions.

Charitable and political donations Charitable donations made by the Group in the year to 31 March 2006 amounted to £390,570. Excluding the Company's matching of Give As You Earn contributions by staff, charitable donations amounted to £290,028, of which approximately 58% were to causes which aim to relieve poverty or benefit the community, or both, approximately 23% were to charities which advance education, and approximately 6% were to medical charities. Further details of charitable donations are set out in the Corporate responsibility section on pages 36 to 41.

In line with Group policy, no donations were made to political parties during the year. Under the Companies Act 1985, as amended, the Company is required to disclose particulars of any donation to any EU political organisation and EU political expenditure incurred during the year. During the period, 3i plc, the main operating company of the Group, made a payment to one organisation, detailed below, which may fall within the definition of donations to EU political organisations. This payment was an annual subscription to the Industry Forum of £3,084.

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 15 days purchases.

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

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

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

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

- services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors;
- services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records; for example, corporate tax services. This work is normally allocated to the auditors subject to consideration of any impact on their independence;
- services that could be provided by a number of firms including general consultancy work. All significant consultancy projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team. Included in this category is due diligence work relating to the investment process. If this service were to be provided by the auditors, the specific team engaged would be independent of the audit team.

Details of the fees paid to the auditors are disclosed in note 6 to the financial statements on page 72.

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

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

By order of the Board

A W W Brierley
Secretary

10 May 2006

Registered Office
16 Palace Street
London SW1E 5JD

Directors' remuneration report

Remuneration Committee

Composition and terms of reference The Remuneration Committee (the "Committee") comprises only independent non-executive Directors. Its members during the year to 31 March 2006 (the "year") were Mr F D Rosenkranz (the Committee Chairman), Mme C J M Morin-Postel, Sir Robert Smith, Mr F G Steingraber and Mr O H J Stocken. None of the Committee members 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 Management Committee. The Committee also determined the fees payable to the Chairman of the Board.

During the year the Committee considered and, where appropriate, made recommendations to the Board on the Company's framework of executive remuneration and its costs to ensure that remuneration policy continued to support the Group's strategy.

The Committee considered performance for the period against key performance indicators in assessing executive Director performance for bonus awards and reviewed the key performance indicators to be used for remuneration purposes for periods from 1 April 2006.

The Committee reviewed the long-term incentives available to executives. It agreed to the renewal of carried interest arrangements for a further period of two years from 1 April 2006 and approved the introduction of new co-investment arrangements for investment executives from the same date.

The Committee considered the impact of the adoption of International Financial Reporting Standards on performance conditions attached to outstanding share awards and determined appropriate adjustments to be made to awards and performance conditions as a result of the Company's return of capital and share consolidation. In each case, the aim of the Committee was to achieve neutrality of treatment, neither advantaging nor disadvantaging participants.

The Committee considered the impact on the Company's pension arrangements of the changes to taxation arrangements which came into force on 6 April 2006 and also reviewed pension arrangements generally in the light of recent legislative changes and other factors. The Company decided that the defined benefit contributory pension scheme operated in the UK would not be offered to new entrants from 1 April 2006.

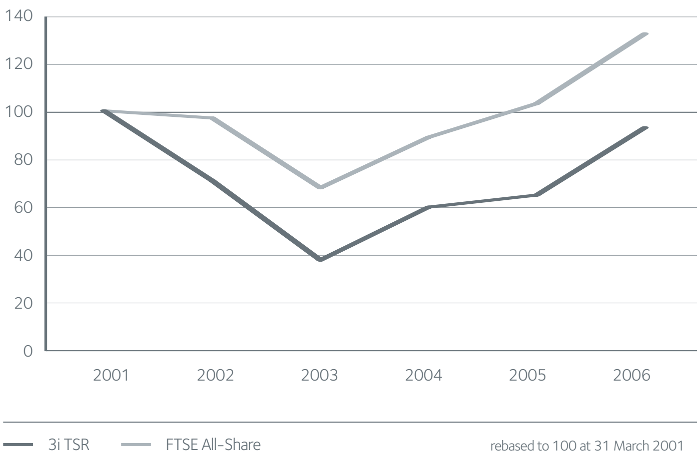
Further details of these matters are set out below. Details of Committee members' attendance at the Committee's meetings are set out in the Directors' report.

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; the Chief Executive, Mr P E Yea; and the Group's Human Resources Director, Ms D R Collis (Ms D R Collis was not appointed by the Committee). Baroness Hogg, Mr P E Yea and Ms D R Collis did not advise the Committee on their own remuneration. During the year, PwC also provided the Group's businesses with taxation advice, HR services, due diligence services and services of an employee on secondment.

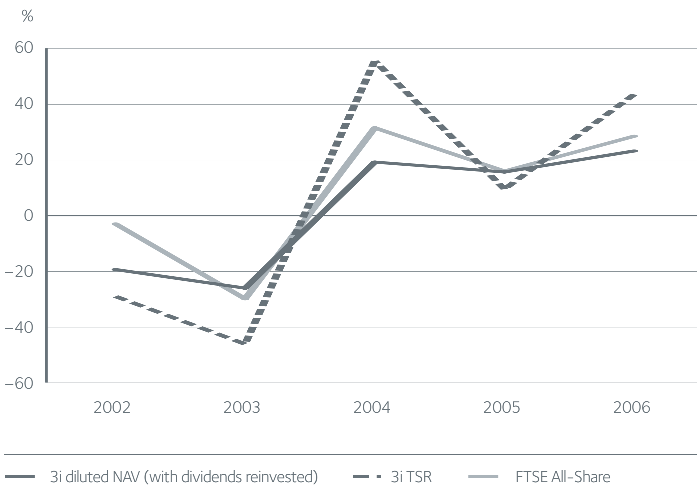
Background The Company operates in the private equity and venture capital sector and is a constituent of the FTSE 100 Index. The majority of the Company's competitors are either partnerships of individuals managing funds for investment on behalf of third parties or unquoted subsidiaries of larger banking or financial services groups. The private equity and venture capital sector continues to be well funded and the ability of trained and experienced executives to gain substantial rewards in the industry remains. Maintaining a remuneration structure to support the recruitment and retention of senior executives continues to be critical. In addition to cash bonuses, it is market practice for investment executives in the private equity and venture capital sector to be given the opportunity to participate in carried interest 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. These are often coupled with co-investment schemes, which require participants in carried interest schemes to put money of their own at risk.

The left hand graph below compares the Company's total shareholder return ("3i TSR") for the five financial years to 31 March 2006 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, this continues to be the most appropriate index against which to compare the Company's total shareholder return. Additional information is provided by the right hand graph below, which compares percentage changes in the Company's diluted net asset value per share over each of the last five financial years (with dividends reinvested), with the Company's total shareholder return and the FTSE All-Share Index total return over the same periods. This has been included as changes in net asset value have been one of the tests used in the Company's long-term incentive schemes.

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



3i diluted NAV, 3i total shareholder return and FTSE All-Share total return (non-cumulative) for the years to 31 March



Directors' remuneration policy The Committee has made no major changes in Directors' remuneration policy over the year, although implementation of that policy has continued to develop, notably with the introduction of co-investment plans for executives below Director level. The Committee has decided to seek shareholder approval at the 2006 AGM to the participation in co-investment plans of executive Directors responsible for investment businesses. These plans will ensure that senior executives cannot receive carried interest without putting some of their own money at risk. Further details are provided below.

Non-executive Directors The Company's policy for the financial year to 31 March 2007 (the "coming year") for non-executive Directors (including the Chairman) continues to be to pay fees which are competitive with the fees paid by other financial services 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 £40,000 per annum. The annual fee for membership of each of the Audit and Compliance, Remuneration and Valuations Committees was £3,000 and the annual fee for a Committee Chairmanship was £10,000. No fees were paid to Directors in respect of their membership of Nominations Committee.

Executive Directors The Company's policy for the coming year for executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executives of the calibre required. Variable remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) is intended to form a substantial component of total remuneration.

(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 Management Committee (including executive Directors) and other executive staff in the UK in the period from 31 March 2005 to 31 March 2006.

	% increase from 31 March 2005 to 31 March 2006
Management Committee (including executive Directors)	5.12%
Other UK executive staff	10.6%

Salaries for Chief Executive and Finance Director The Company's policy in the coming year in relation to the remuneration of the Chief Executive and Finance Director is to pay salaries comparable to those paid by other financial services companies of broadly similar UK market capitalisation. Salary supplements are paid to Mr P E Yea and Mr S P Ball to enable them to make additional pension provision.

Salaries for Directors responsible for investment business The Company's policy in the coming year in relation to the remuneration of Directors with responsibility for investment business is to provide salaries comparable to those paid in the private equity and venture capital industry.

(b) Annual bonuses Employees, including executive Directors, are eligible for discretionary annual bonuses. The Committee determines target bonuses for each executive Director at the beginning of each year. These are intended to be competitive with arrangements in the financial services industry or, in the case of Directors responsible for investment businesses, the private equity and venture capital industry. Target bonuses are achievable if corporate performance targets, personal performance targets and, in the case of Directors responsible for investment businesses, business targets are met. During the year, executive Directors' target bonuses were 90% of base salary except that the target bonus for the executive Director responsible for Growth Capital was 100%. Bonuses above target will only be paid for outstanding performance, and the maximum is twice the target bonus. Bonuses above 1.5 times target will be in 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 used to assess corporate performance for the year were: 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; and one to three year internal rate of return compared with performance of the private equity and venture capital industry as a whole. In forming its overall judgment the Committee also takes into account a number of more detailed indicators of performance and activity, such as the level of investment, realised profits and costs. The Committee's view, after reviewing performance of the Company against indicators outlined above, was that corporate performance merited bonus levels above target. As this report shows, total shareholder return was well ahead of the FTSE All-Share Index; total return was more than 50% up compared to the year to 31 March 2005, and the greater part of this came from non market-driven factors. The two main business lines (Buyouts and Growth Capital) performed ahead of their published return targets during the year, and IRR comparisons with the European private equity industry indicated strong outperformance by the Company over the three-year period. Realisations were very high, and investment was significantly higher than in the year to 31 March 2005. While costs had risen, these were mainly associated with the opening of new offices and the development of the Group's business lines (for example, establishing an infrastructure team) and increases in variable remuneration required to bring the Company more in-line with the private equity industry.

The Committee's combined assessment of corporate and personal performance in the year led to awards in the upper part of the bonus range for all three executive Directors. Within the maximum of 2 times target bonus, combined awards ranged from 1.7 to 1.83 times target, which translated into 1 times salary in cash and 0.53 to 0.75 times in shares deferred for two years.

For the coming year, the target bonuses for the Chief Executive and Finance Director will again be 90% of base salary (excluding salary supplements). In order to shift the remuneration of the executive Director responsible for Growth Capital further towards the private equity model, he will receive no increase in salary but an increase in his target bonus to 125% of base salary. Maximum bonuses for all executive Directors will continue to be twice target bonus.

(c) Long-term incentives The Committee determines the levels of long-term incentives. In the coming year, long-term incentive arrangements for the Chief Executive and Finance Director will consist of share options and performance share awards under The 3i Group Discretionary Share Plan ("the Discretionary Share Plan"). Executive Directors responsible for investment business are eligible to participate in carried interest arrangements, as approved by shareholders in 2004. Subject to shareholder approval at the 2006 AGM, executive Directors responsible for investment business will also be eligible to participate in co-investment arrangements and will then not be allowed to participate in carried interest arrangements unless they agree to participate in the co-investment arrangements.

The Discretionary Share Plan The Discretionary Share Plan is a shareholder approved executive share plan conforming with the Association of British Insurers' guidelines on dilution limits. The level of annual awards of options and performance shares is reviewed each year taking account of market practice, individual performance, the specific circumstances facing the Company and calculations of the relative fair values of share options and performance shares. During the year the Company's policy was that the maximum annual award of options should be market price options with an aggregate exercise price of six times salary or its equivalent fair value in performance shares. The performance targets for options and performance shares granted in the year are set out on pages 54 and 56 respectively. During the year awards with face values of approximately three times salary in share options and 1.1 times salary in performance shares were made to the Chief Executive and 4.8 times salary in share options and 0.4 times salary in performance shares were made to the Finance Director. In March 2005, the fair values of share options and performance shares under the Discretionary Share Plan were calculated and the fair value of a performance share at that time was estimated to be 1.9 times the fair value of an option. This ratio of fair values was used in finalising the long-term incentive awards granted in July 2005.

To clarify the framework, for the coming year the Committee proposes to maintain the limit of six times salary in nominal terms for an award made in share options and set a limit of three times salary for an award in performance shares, with any combination being subject to an overall limit on the fair value of all share-based awards in the year. For the coming year this limit will be two times salary. The Committee's remuneration consultant will calculate the fair values of share-based awards. At 31 March 2006, these fair values were calculated by the Committee's remuneration consultant to be 27% of face value for share options and 58% of face value for performance shares. These fair values are subject to re-calculation in changing market conditions.

Carried interest plans At the Company's AGM on 7 July 2004, shareholders approved the participation of executive Directors responsible 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 on an executive Director's participation are taken by the Committee taking into account market practice and the Director's investment responsibilities.

The carried interest plans are designed to follow best practice in the private equity and venture capital industry. The total carried interest, for all investment executives eligible to participate in each Plan, does not exceed 15% of the relevant pool of investments made over a specific period (usually two years). Participants are entitled to the profits made on the proportion of the total carried interest allocated to them subject to the satisfaction of a performance condition which is determined in advance by the Committee, in line with market conditions at the time of award. The proportion of total carried interest that is allocated to an executive Director depends on, among other things, the size of his investment team.

Following introduction of the co-investment arrangements referred to below, the Company's policy is that awards of carried interest will only normally be made to executives who have taken up the opportunity offered to them of participating in those co-investment arrangements.

Co-investment Plan Shareholder approval is being sought at the 2006 AGM to enable executive Directors responsible for investment business to participate in co-investment plans established for the Group's investment executives. Decisions on an executive Director's participation will be taken by the Committee taking into account market practice and the investment responsibilities of the executive Director concerned. If shareholder approval is granted, the policy of only normally awarding carried interest to executives who have taken up the opportunity to participate in co-investment arrangements will be extended to executive Directors.

Individuals will participate in co-investment plans by investing their own money in the plan relating to the area of the business in which they work. Plans will be organised by business line and geography with each plan investing in all investments made by the Group within the relevant business line and geography over a specified time period (usually two years). Normally participants will provide at least one third of the capital to finance the plans and the Group not more than two thirds. The plans will invest in investments alongside the Group on terms which are in all material respects the same as the terms on which the Group and its funds under management invest. For the period 2006 to 2008 the plans will fund 1% (2% in the US) of the total investment made by the Group and its funds under management, including the plans. Plans will share (in proportion to their investment) in the profits and losses made on those investments in the same way as the Group and its funds under management. Proceeds realised on investments made by the plans will be applied first to repaying the amount provided by the Group together with a management charge and a preferential return fixed by Remuneration Committee. For the period 2006 to 2008 this will be 2% over LIBOR (or equivalent) per annum compound. The remaining proceeds will be distributed to participants as a return on their investment.

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	(note 1) 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	**Total remuneration Year to 31 March 2006 £'000**	Total remuneration Year to 31 March 2005 £'000
Executive Directors								
P E Yea (note 5)	660	200	860	675	437	17	**1,989**	1,137
S P Ball (note 5)	427	62	489	420	223	2	**1,134**	128
M J Queen (notes 5 and 6)	466		466	400	300	2	**1,168**	884
Non-executive Directors								
Baroness Hogg (note 7)	260		260				**260**	220
O H J Stocken	90		90				**90**	83
Dr P Mihatsch	43		43				**43**	21
C J Morin-Postel	46		46				**46**	40
F D Rosenkranz	56		56				**56**	48
Sir Robert Smith	46		46				**46**	22
F G Steingraber	43		43				**43**	37
Former Directors								
Dr J R Forrest (until 7 July 2004)							**–**	11
M M Gagen (until 23 August 2004) (note 8)							**–**	325
B P Larcombe (until 7 July 2004)							**–**	437
R W Perry (until 6 July 2005) (notes 6 and 8)	146		146			4	**150**	761
Total	2,283	262	2,545	1,495	960	25	**5,025**	4,154

Notes

1 Mr P E Yea and Mr S P Ball received salary supplements to enable them to make additional pension provision.
2 Bonuses relate to the year to 31 March 2006 and are expected to be paid in June 2006.
3 Deferred share bonuses will be paid in shares in the Company, deferred for two years.
4 "Benefits in kind" were company car (Mr P E Yea and Mr R W Perry) and health insurance (Mr P E Yea, Mr S P Ball, Mr M J Queen and Mr R W Perry).
5 In addition to the salaries and fees disclosed, executive Directors retained fees from outside directorships as follows: Mr P E Yea, £55,417 (Vodafone Group plc); Mr S P Ball, £69,442 (Leica Geosystems AG); and Mr M J Queen, £48,765 (Northern Rock plc).
6 Salaries and fees for Mr M J Queen and Mr R W Perry include payments of deferred cash bonuses of £54,000 and £45,000 respectively granted in 1998, which became payable on exercise of deferred share bonus awards under the Management Equity Investment Plan as described on page 58.
7 Baroness Hogg's fees, which had remained unchanged at £220,000 per annum from her appointment as Chairman on 1 January 2002 to 31 March 2005, were increased to £260,000 per annum with effect from 1 April 2005.
8 Amounts payable to former Directors were as follows: Mr R W Perry, £95,000 (consultancy); Mr M M Gagen, £156,646 (payments equal to base salary for the period 1 April 2005 to 30 August 2005 paid in accordance with the terms of his former employment) and £63,349 (payments under interests in carried interest plans retained following cessation of employment); and Mr W J R Govett, £8,000 (director's fees from Gardens Pension Trustees Limited, a trustee of the 3i Group Pension Plan).

Options to subscribe for shares Options granted under the Company's executive share option plans entitle executives to acquire ordinary shares, at an exercise price based on market price at the date of grant, from the third until the tenth anniversaries of grant to the extent, normally, that a performance condition set at the time of grant has been satisfied over a three year performance period.

The performance condition for awards granted in the year was as follows:

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	30%
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%

This represented a toughening of the performance condition compared to the year to 31 March 2005 when the performance condition was the same save that the percentage of the award vesting at the minimum performance level was 50% instead of 30%.

For grants made between 1 April 2001 and 31 March 2004 the condition requires annual percentage compound growth in net asset value per share (with dividends reinvested) of RPI plus 5 percentage points to achieve minimum vesting of 50% of the award and growth of RPI plus 10 percentage points for full vesting. For these grants, if the minimum threshold for vesting is not achieved in the three years from grant, the period is extended to four and then five years 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.

These conditions are based on net asset value per share increases 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 is to approximate to the performance conditions attached to carried interest schemes in the private equity and venture capital industry whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The performance conditions were chosen as appropriately demanding in the prevailing market conditions at the time of grant.

Options held by Directors who held office during the year were as follows.

	Year of grant	Held at 1 April 2005	Granted during the year	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
P E Yea	2004	314,410	–	–	**314,410**	5.73		21.07.07	20.07.14
	2005		259,740	–	**259,740**	6.93		21.06.08	20.06.15
		314,410	259,740	–	**574,150**				
S P Ball	2005		245,022	–	**245,022**	6.53		17.05.08	16.05.15
	2005		48,100	–	**48,100**	6.93		21.06.08	20.06.15
		–	293,122	–	**293,122**				
M J Queen	1996	40,850*		40,850	**–**	4.50	9.18	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
	2005		44,733	–	**44,733**	6.93		21.06.08	20.06.15
		651,985	44,733	40,850	**655,868**				
R W Perry (until 6 July 2005)	1995	1,600*		1,600	**–**	3.61	6.57	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	06.07.06
	1997	58,378*		–	**58,378***	5.12		17.12.00	06.07.06
	1998	29,381*		–	**29,381***	5.67		16.12.01	06.07.06
	1999	10,734*		–	**10,734***	7.28		06.07.02	06.07.06
	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
		521,190	–	1,600	**519,590**				

The performance condition has not yet been met for those options shown in blue.
*Awarded before appointment as a Director.

Notes

1 The fair values of share option awards made in the year were as follows: Mr P E Yea, £462,600; Mr S P Ball, £496,867; and Mr M J Queen, £79,670. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the share options granted during the year was calculated as being 25.7% of the market value at the date of grant of the shares under option.

2 During the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p. This was designed to maintain the price per share, other things being equal, at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in option awards or the exercise price per share and options took effect following the consolidation as options over new ordinary shares of 53⅛p.

3 Options granted before 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 grant provided a performance condition has been met over a rolling three year period. This requires adjusted net asset value per share (after adding back dividends paid during the performance period) at the end of the three year period to equal or exceed 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%.

4 Options granted after 31 March 2001 were granted under the Discretionary Share Plan and the performance conditions are as set out above on page 54.

5 The Committee determines the fulfilment of performance conditions based on 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. Where accounting policies have altered between the beginning and end of the period, the Committee adjusts the net asset value calculations appropriately to ensure consistency. The Committee also has power to adjust the calculations to reflect circumstances including changes to the capital of the Company. During the year the Committee made appropriate adjustments to reflect the consolidation of the Company's share capital and the repurchase by the Company of its own shares.

6 On the retirement of Mr R W Perry on 6 July 2005, under the rules of the 1994 Plan, the exercise periods of options granted to him before 2000 altered so as to expire on 6 July 2006 and, under the rules of the Discretionary Share Plan, the exercise periods of the options granted to him in 2000 to 2004 altered so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date.

7 The mid-market price of shares in the Company at 31 March 2006 was 940.5p and the range during the period 1 April 2005 to 31 March 2006 was 635.5p to 970.5p. Aggregate gains made by Directors on share option exercises in the year (including on exercise of awards under the Management Equity Investment Plan detailed on page 58) were £199,158 (2005: £318,380). The amount attributable to the highest paid Director during the year was £Nil (amount attributable to the highest paid Director in 2005: £Nil). Options under the 1994 Plan and the Discretionary Share Plan were granted with exercise prices not less than prevailing market value. Options were granted at no cost to the option holder. No options held by Directors lapsed during the year.

8 As at 31 March 2006 there were no 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 24 million shares were available under the 10% dilution limit arising from those guidelines applicable to "all employee" plans. In addition, approximately 2.4 million unallocated shares were held in an employee trust and were available for awards under the Discretionary Share Plan.

Performance Share Awards These are awards of shares which are transferred to the participant subject to forfeiture in certain circumstances. Awards are subject to a performance condition determining whether awards vest. Non-vested shares are forfeited. Shares vest based on the Company's "percentage rank" by total shareholder return for three years from grant (averaged over a 60 day period) compared to a comparator group. This 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. At a percentage rank below 50% no shares vest. At a rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata. This condition was chosen to align the interests of participants and shareholders by linking remuneration to shareholder returns relative to a comparator index of which the Company is a constituent. The Committee will determine whether the condition has been met based on calculations prepared by the Committee's remuneration consultant.

	Held at 1 April 2005	(Note 2) Adjustment during the year	Granted during the year	Vested during the year	**Held at 31 March 2006 (or retirement if earlier)**	Market price on date of grant £	Date of vesting
P E Yea	179,663	(2,823)	–	–	**176,840**	5.73	21.07.07
			90,484	–	**90,484**	6.98	14.07.08
	179,663	(2,823)	90,484	–	**267,324**		
S P Ball	–	–	25,134	–	**25,134**	6.98	14.07.08
	–	–	25,134	–	**25,134**		
M J Queen	42,913	(675)	–	–	**42,238**	5.56	24.06.06
	89,552	(1,407)	–	–	**88,145**	6.03	23.06.07
	132,465	(2,082)	–	–	**130,383**		
R W Perry (until 6 July 2005)	26,408	–	–	–	**26,408**	5.56	24.06.06
	23,098	–	–	–	**23,098**	6.03	23.06.07
	49,506	–	–	–	**49,506**		

Notes

1 The fair values of performance share awards made during the year were as follows: Mr P E Yea, £310,737; and Mr S P Ball, £86,314. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the performance shares awarded during the year was calculated as being 49.2% of the market value at the date of award of the shares subject to the award.

2 Shares held at 1 April 2005 are ordinary shares of 50p each. "Adjustment during the year" refers to the change in the number of shares in the award resulting from the consolidation of the Company's shares on 11 July 2005 and the re-investment of the special dividend paid on 22 July 2005 in further shares which, in accordance with the rules of the Plan, are treated as forming part of the original award. Shares held at 31 March 2006 are ordinary shares of 53⅛p each.

3 During the year, the Committee agreed that ordinary dividends on performance share awards would be reinvested net of tax in further Company shares. These shares, which are in addition to the above performance share awards, are required to be held for the remaining vesting period to which they relate, but are not forfeitable. Such shares attributable to Directors during the year were as follows: Mr P E Yea, 2,629 shares; Mr S P Ball, 115 shares; and Mr M J Queen, 1,630 shares.

Share Incentive Plan The HM Revenue and Customs approved Share Incentive Plan is open to all eligible UK employees and is intended to encourage employees to invest in the Company's shares and is accordingly not subject to a performance condition. Participants invest up to £125 per month from pre-tax salary in shares ("partnership shares"). For each partnership share the Company grants two free shares ("matching shares") which are normally forfeited if employment ceases (other than on retirement) within three years of grant. Dividends are reinvested in further shares ("dividend shares").

	Held at 1 April 2005 Partnership shares	Held at 1 April 2005 Matching shares	Held at 1 April 2005 Dividend shares	**Held at 31 March 2006 Partnership shares**	**Held at 31 March 2006 Matching shares**	**Held at 31 March 2006 Dividend shares**
P E Yea	92	184	–	**276**	**555**	**35**
S P Ball	–	–	–	**154**	**310**	**4**
M J Queen	769	1,538	74	**913**	**1,827**	**268**
R W Perry (until 6 July 2005)	785	1,570	78	**842***	**1,684***	**78***

*As at his retirement date.

Notes

1 Shares at 1 April 2005 were ordinary shares of 50p each. On 11 July 2005 shares in the plan were consolidated on the same basis as the Company's other issued shares. Shares at 31 March 2006 were ordinary shares of 53⅛p.

2 In the period from 1 April 2006 to 3 May 2006 inclusive, Mr P E Yea, Mr S P Ball and Mr M J Queen have acquired a further 14, 13 and 14 partnership shares and 28, 26 and 28 matching shares respectively. During the year, shares were awarded at prices between 645.67p and 955.33p per share and with an average price of 756.91p per share.

Carried interest plans The operation of the Group's carried interest plans is described on page 53. In the table below scheme interests of Directors who served in the year are expressed in terms of a percentage of the relevant pool of investments in respect of which the participant is entitled to the profits subject to fulfilment of relevant conditions. The conditions include a requirement that, normally, before any payment to a participant becomes due, the Group (and funds under its management) must first have received back the amount of its investment in the relevant vintage together with a 1.5% per annum management charge and a hurdle rate of return of 8% per annum compound on its investment.

The table also shows the accrued value of the interest at the end of the year. This accrued value is calculated on the basis set out in note G on page 67. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to a payment of that amount to the participant.

Interests of Directors in carried interest plans during the year were as follows.

	Scheme interests, being the percentage of the investment vehicle held which in turn invests in a pool of investments and is entitled to participate in the realised profits					
	As at 1 April 2005	Awarded in year	**As at 31 March 2006**	End of period over which interests may vest	Amounts receivable in respect of scheme interests vested in year £	**Accrued value of Scheme interest as at 31 March 2006 £**
M J Queen						
Pan-european Growth Capital Carry Scheme 2005-06	Nil	80%	**80%**	01.04.10	Nil	**Nil**
Infrastructure 2005-06	Nil	18.5%	**18.5%**	26.07.10	Nil	**Nil**

Pension arrangements The executive Directors are members of the 3i Group Pension Plan which is a defined benefit contributory scheme which from 1 April 2006 will not be offered to new entrants. For members who joined the plan before 1 September 2002, the plan provides for a pension, subject to HM Revenue & Customs limits, of two thirds of final pensionable salary (limited, in the case of members joining on or after 1 June 1989, to a plan earnings cap) on retirement (normally at age 60) after 25 years' service and less for service under 25 years. For members who joined the plan from 1 September 2002 up to 31 March 2006 inclusive (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). 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 9 to the financial statements on pages 74 and 75.

Pension entitlements of Directors who served during the year are set out 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 the actuaries 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. The Trustees of the plan strengthened the transfer value basis during the course of the year and so the value placed on £1 per annum of pension at the end of the year was greater, for these members, by about 30% to 35% than at the start of the year. Therefore the figures in the final column below should be interpreted bearing this in mind.

	(note 1) **Age at 31 March 2006**	(note 1) **Complete years of pensionable service at 31 March 2006**	(notes 1 and 2) **Increase in accrued pension (excluding inflation) during the year to 31 March 2006 £'000 p.a.**	(notes 1 and 3) **Total accrued pension at 31 March 2006 £'000 p.a.**	(note 1) **Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2006 £'000**	(notes 1 and 2) **Increase in accrued pension (including inflation) during the year to 31 March 2006 £'000 p.a.**	(note 4) **Transfer value of the accrued benefits at 31 March 2006 £'000**	(note 5) Transfer value of the accrued benefits at 31 March 2005 £'000	(note 6) Difference between transfer values at start and end of the accounting year, less Director's contribution £'000
P E Yea	**51**	**1**	**2.2**	**3.7**	**5.3**	**2.2**	**58.7**	18.1	35.3
S P Ball	**45**	**1**	**2.2**	**2.5**	**5.3**	**2.2**	**31.6**	3.1	23.2
M J Queen	**44**	**18**	**10.4**	**200.0**	**13.0**	**15.4**	**2,441.7**	1,613.7	815.0
R W Perry (until 24 April 2005 – see note 1)	**59**	**19**	**1.5**	**182.9**	**0.7**	**1.9**	**4,160.8**	4,076.7	83.4

Notes

1 In the case of Mr R W Perry, 24 April 2005, being the date on which he left pensionable service.

2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.

3 The pensions shown are deferred pensions payable from age 60.

4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2006 (Actuarial Guidance Note GN11 (version 9.1)). Mr Perry ceased pensionable service in the plan on 24 April 2005 and transferred out the cash equivalent transfer value of his benefits on 3 May 2005. The figure shown for him is the transfer value paid on 3 May 2005.

5 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)).

6 In the case of Mr Perry, the difference between the transfer value at the start of the year and the transfer value that was paid out in respect of him on 3 May 2005, less his own contributions.

7 Additional voluntary contributions are excluded from the above table.

8 The pensions shown above become payable at a Normal Retirement Age of 60. 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 Non-executive Directors, including the Chairman, hold office under the Company's Articles of Association and do not have service contracts. Their appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

Company policy is that executive Directors' notice periods should not normally exceed one year. Mr P E Yea, Mr S P Ball and Mr M J Queen have employment contracts with 3i plc dated 27 July 2004, 19 April 2005 and 22 June 1987 respectively. These contracts are terminable on 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. There are no provisions for compensation of executive Directors on early termination save that 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 retiring on 6 July 2005 aged 60, Mr R W Perry had an employment contract with 3i plc dated 1 July 1985 which was terminable on 12 months' notice given by the Company or six months' notice given by Mr Perry. The contract contained no provision for compensation on early termination, save that the Company could elect to give pay in lieu of notice.

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 details historic awards held by Directors under the Management Equity Investment Plan.

Deferred share bonuses under the Management Equity Investment Plan Until 31 March 2001 executives could be awarded part of their annual bonus in deferred shares under the Management Equity Investment Plan. Awards were reported each year as remuneration for the year to which they related. There was no performance condition since the award was a bonus already earned. Awards comprised options issued by an employee benefit trust to acquire shares at nil cost after three years provided, in the case of executive Directors, they had maintained an agreed shareholding for the three year period. In 1998 market value options were granted together with a deferred cash bonus which was payable only to fund the exercise price payable on exercise.

	Year of grant	Held at 1 April 2005	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
M J Queen	1998	8,144	8,144	**–**	6.63	7.025	15.06.01	14.06.05
		8,144	8,144	**–**				
R W Perry (until 6 July 2005)	1998	6,787*	6,787	**–**	6.63	6.61	15.06.01	14.06.05
	2000	5,819	–	**5,819**	Nil		28.06.03	05.07.06
	2001	3,600	–	**3,600**	Nil		09.08.04	05.07.06
		16,206	6,787	**9,419**				

*Awarded before appointment as a Director.

Notes

1 In the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation, of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p, which was designed, other things being equal, to maintain the price per share at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in awards.

2 On Mr R W Perry's retirement on 6 July 2005, the expiry dates of his 2000 and 2001 awards were altered so as to expire on 5 July 2006.

3. The deferred cash bonuses paid to Mr M J Queen and Mr R W Perry on the exercise of their 1998 deferred share bonuses are disclosed in note 6 on page 54.

Performance linked awards under the Management Equity Investment Plan Until 2000, executives could also receive awards linked to longer term Group performance under the Management Equity Investment Plan. Participants were awarded options by an employee benefit trust to acquire shares at nil cost after five years subject to a performance condition.

	Year of grant	(note 1) Held at 1 April 2005	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
M J Queen	2000	25,776	–	**25,776**	Nil		28.06.05	27.06.07
		25,776	–	**25,776**				
R W Perry (until 6 July 2005)	1999	543*	–	**543***	Nil		23.07.04	05.07.06
	2000	21,054	–	**21,054**	Nil		28.06.05	05.07.06
		21,597	–	**21,597**				

*Awarded before appointment as a Director.

Notes

1 In the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation, of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p, which was designed, other things being equal, to maintain the price per share at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in option awards.

2 1999 awards are shown to the extent (64.6%) that they vested in accordance with the performance condition. It has not yet been determined if and to what extent the 2000 awards will vest and they are shown in full.

3 On Mr R W Perry's retirement on 6 July 2005, the expiry dates of his awards were altered to 5 July 2006.

Under the performance condition no shares vest unless the Company's total shareholder return over a three year performance period (averaged over the six months before the beginning and end of the period) equals or exceeds the compounded annual increase in the RPI over the period + 6% per annum. At this level 35% of the shares vest and all shares vest if the return equals or exceeds RPI + 20% per annum. Between these levels, a proportion of shares vest. If the minimum performance condition is not achieved over the three year period, the performance period is 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 condition was chosen as being suitably demanding at that time whilst aligning the interests of participants and shareholders. The Group's Human Resources department calculates whether performance conditions have been satisfied and this calculation is audited by Ernst & Young LLP.

Audit The tables in this report (including the notes thereto) on pages 54 to 58 have been audited by Ernst & Young LLP.

By Order of the Board

F D Rosenkranz
Chairman, Remuneration Committee

10 May 2006

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

We have audited the Group and Parent Company financial statements (the "financial statements") of 3i Group plc for the year ended 31 March 2006 which comprise the Consolidated income statement, the Group and Parent Company Statement of recognised income and expense, the Group and Parent Company Reconciliation of movements in equity, the Group and Parent Company Balance sheets, the Group and Parent Company Cash flow statements, Significant accounting policies and the related notes 1 to 39. These financial statements have been prepared under 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, the Directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as set out in the Statement of Directors' responsibilities.

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 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, 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 and Article 4 of the IAS Regulation and the information given in the Directors' report is consistent with the financial statements.

We also report to you if, in our opinion, 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 regarding Directors' remuneration and other transactions are not disclosed.

We review whether the Corporate Governance statement 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. The other information comprises only the Group financial highlights, Our business lines, Chairman's statement, Chief Executive's statement, Our vision, Business review, Corporate responsibility, Board of Directors and Management Committee, Directors' Report, the unaudited part of the Directors' remuneration report, Portfolio valuation methodology, Ten largest investments, Forty other large investments, New investment analysis, Portfolio analysis, Realisations analysis, Portfolio and investment analysis including co-investment funds, Funds under management, Private equity and venture capital – a lexicon, Returns and IRRs – an explanation, Information for shareholders, and Investor relations and general enquiries. 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 International Standards on Auditing (UK and Ireland) 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 and Company'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2006;
- 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 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

Ernst & Young LLP
Registered auditor

London

10 May 2006

Consolidated income statement

for the year to 31 March 2006

	Notes	2006 £m	2005 (as restated)* £m
Realised profits over value on the disposal of investments	2	**576**	250
Unrealised profits on the revaluation of investments	3	**245**	245
		821	495
Portfolio income			
Dividends		**75**	104
Income from loans and receivables		**133**	101
Fees receivable	4	**24**	27
Gross portfolio return		**1,053**	727
Carried interest			
Carried interest receivable from managed funds	5	**79**	2
Carried interest payable to executives	5	**(64)**	(66)
Fund management fees		**24**	30
Operating expenses	6, 7, 8	**(211)**	(177)
Net portfolio return		**881**	516
Treasury interest receivable	10	**55**	46
Interest payable	10	**(72)**	(88)
Movements in the fair value of derivatives	11	**(78)**	13
Exchange movements	12	**47**	13
Other income	13	**22**	1
Profit before tax		**855**	501
Income taxes	14	**(3)**	(3)
Profit after tax and profit for the year		**852**	498
Earnings per share			
Basic (pence)	31	**152.0**	82.6
Diluted (pence)	31	**147.3**	81.0

*As restated for the adoption of IFRS.

Statement of recognised income and expense

for the year to 31 March 2006

	Notes	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Profit for the year		**852**	498	**643**	407
Revaluation of property		**–**	(1)	**–**	(1)
Exchange differences on translation of foreign operations	12	**(5)**	5	**–**	–
Actuarial losses	9	**(16)**	(1)	**–**	–
Total recognised income and expense for the year		**831**	501	**643**	406
Analysed in reserves as:					
Revenue	29	**117**	129	**87**	93
Capital	29	**719**	367	**556**	313
Translation reserve	29	**(5)**	5	**–**	–
		831	501	**643**	406

*As restated for the adoption of IFRS.

Reconciliation of movements in equity

for the year to 31 March 2006

	Notes	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Opening total equity		**3,699**	3,294	**3,626**	3,300
Total recognised income and expense for the year		**831**	501	**643**	406
Share-based payments	8	**8**	6	**–**	–
Ordinary dividends	32	**(86)**	(85)	**(86)**	(85)
Special dividends	32	**(245)**	–	**(245)**	–
Issues of shares	29	**13**	5	**13**	5
Share buy-backs	29	**(222)**	–	**(222)**	–
Own shares	30	**8**	(22)	**–**	–
Closing total equity		**4,006**	3,699	**3,729**	3,626

*As restated for the adoption of IFRS.

Balance sheet

as at 31 March 2006

Assets	Notes	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Non-current assets					
Investments					
Quoted equity investments	15	**259**	235	**173**	203
Unquoted equity investments	15	**2,514**	2,682	**1,349**	1,899
Loans and receivables	15	**1,366**	1,400	**735**	987
Investment portfolio		**4,139**	4,317	**2,257**	3,089
Carried interest receivable		**77**	9	**77**	9
Interests in joint ventures	16	**–**	46	**–**	14
Interests in Group entities	17	**–**	–	**1,483**	981
Property, plant and equipment	18	**31**	33	**9**	25
Investment property	19	**–**	6	**–**	–
Total non-current assets		**4,247**	4,411	**3,826**	4,118
Current assets					
Other current assets	20	**149**	116	**193**	165
Derivative financial instruments	22	**19**	35	**19**	35
Deposits		**1,108**	885	**1,052**	791
Cash and cash equivalents		**847**	314	**776**	279
Total current assets		**2,123**	1,350	**2,040**	1,270
Total assets		**6,370**	5,761	**5,866**	5,388
Liabilities					
Non-current liabilities					
Carried interest payable		**(83)**	(71)	**(83)**	(71)
Loans and borrowings	23	**(1,243)**	(1,196)	**(968)**	(879)
Convertible Bonds	24	**(365)**	(352)	**(365)**	(352)
Subordinated liabilities	25	**(24)**	(50)	**–**	–
Retirement benefit obligation	9	**(17)**	(23)	**–**	–
Deferred income tax	14	**(1)**	(1)	**–**	–
Provisions	27	**(5)**	(5)	**–**	–
Total non-current liabilities		**(1,738)**	(1,698)	**(1,416)**	(1,302)
Current liabilities					
Trade and other payables	26	**(160)**	(135)	**(271)**	(254)
Carried interest payable		**(60)**	(38)	**(60)**	(38)
Loans and borrowings	23	**(231)**	(102)	**(230)**	(102)
Derivative financial instruments	22	**(168)**	(80)	**(160)**	(66)
Current income tax		**(2)**	(2)	**–**	–
Provisions	27	**(5)**	(7)	**–**	–
Total current liabilities		**(626)**	(364)	**(721)**	(460)
Total liabilities		**(2,364)**	(2,062)	**(2,137)**	(1,762)
Net assets		**4,006**	3,699	**3,729**	3,626
Equity					
Issued capital	28	**292**	307	**292**	307
Share premium	29	**376**	364	**376**	364
Capital redemption reserve	29	**17**	1	**17**	1
Share-based payment reserve	29	**17**	9	**–**	–
Translation reserve	29	**–**	5	**–**	–
Capital reserve	29	**3,110**	2,613	**2,767**	2,433
Revenue reserve	29	**263**	477	**277**	521
Own shares	29	**(69)**	(77)	**–**	–
Total equity	29	**4,006**	3,699	**3,729**	3,626

*As restated for the adoption of IFRS.

Cash flow statement

for the year to 31 March 2006

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Cash flow from operating activities				
Purchase of investments	**(1,068)**	(719)	**(873)**	(717)
Proceeds from investments	**2,213**	1,287	**1,949**	1,184
Interest received	**67**	64	**42**	45
Dividends received	**76**	103	**70**	99
Fees received from investment and fund management activities	**46**	56	**13**	1
Carried interest received	**9**	–	**9**	–
Carried interest paid	**(30)**	(4)	**–**	–
Operating expenses	**(216)**	(224)	**(182)**	(90)
Income tax paid	**(8)**	(1)	**(5)**	–
Net cash inflow from operations	**1,089**	562	**1,023**	522
Cash flow from financing activities				
Proceeds from issues of share capital	**13**	5	**13**	5
Purchase of own shares	**(222)**	(25)	**(222)**	(25)
Dividend paid	**(331)**	(85)	**(331)**	(85)
Interest received	**50**	46	**46**	45
Interest paid	**(60)**	(81)	**(38)**	(55)
Payment of finance lease liabilities	**–**	(1)	**–**	–
Proceeds from long-term borrowings	**69**	44	**92**	–
Repayment of long-term borrowings	**(54)**	(32)	**–**	(1)
Net cash flow from short-term borrowings	**188**	(67)	**156**	(58)
Net cash flow from deposits	**(223)**	(269)	**(261)**	(285)
Net cash flow from financing activities	**(570)**	(465)	**(545)**	(459)
Cash flow from investing activities				
Purchases of property, plant and equipment	**(15)**	(4)	**–**	–
Sales of property, plant and equipment	**24**	1	**17**	–
Divestment from joint venture	**2**	14	**2**	3
Net cash flow from investing activities	**11**	11	**19**	3
Change in cash and cash equivalents	**530**	108	**497**	66
Opening cash and cash equivalents	**314**	203	**279**	213
Effect of exchange rate fluctuations	**3**	3	**–**	–
Closing cash and cash equivalents	**847**	314	**776**	279

*As restated for the adoption of IFRS.

Significant accounting policies

3i Group plc (the "Company") is a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of the Company for the year to 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. Separate financial statements of the Company are also presented. The accounting policies of the Company are the same as the Group except where separately disclosed.

The financial statements were authorised for issue by the Directors on 10 May 2006.

A Statement of compliance These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union ("IFRS"). These are the Group's first consolidated and separate financial statements prepared under IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied.

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 1985 and the Listing Rules of the Financial Services Authority.

IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. 3i has taken the following key decisions:

– The effect of changes in foreign exchange rates: Under IFRS 1, cumulative translation differences on the consolidation of subsidiaries are being accumulated from the date of transition to IFRS and not from the original acquisition date.

– Share-based payment: IFRS 2 Share-based Payment ("IFRS 2") has been adopted from the transition date and is only being applied to relevant equity instruments granted after 7 November 2002 and not vested as at 1 January 2005. 3i has elected not to take up the option of full retrospective application of the standard.

– Financial Instruments: Under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), all equity investments have been designated at the date of transition to be assets at fair value through profit or loss except for subsidiaries held by the Company.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 38.

New standards and interpretations not applied During the year, the IASB and IFRIC have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyper Inflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application. Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. There will be no effect on reported income or net assets.

B Basis of preparation The financial statements are presented in sterling, the functional currency of the Company, rounded to the nearest million pounds.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies below and in our "valuation methodology" for investments.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet as at 1 April 2004 for the purpose of the transition to IFRS. The income statement of the Company has been omitted from these financial statements in accordance with Section 230 of the Companies Act 1985.

The accounting policies have been consistently applied across all Group entities for the purpose of producing these consolidated financial statements.

C Basis of consolidation

(i) Subsidiaries Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 Investment in Associates ("IAS 28"), which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

(iii) Joint ventures Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method.

Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IAS 31 Interests in Joint Ventures ("IAS 31"), which requires venturer's interests held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. The Group has no interests in joint ventures through which it carries on its business.

(iv) Transactions eliminated on consolidation Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

D Exchange differences

(i) Foreign currency transactions Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of non-sterling operations The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve, and are released upon disposal of the non-sterling operation.

In respect of non-sterling operations, cumulative translation differences on the consolidation of non-sterling operations are being accumulated from the date of transition to IFRS, 1 April 2004, and not from the original acquisition date.

E Investment portfolio The Group's return is generated primarily from its investment portfolio, which forms the main element of its total assets.

(i) Recognition and measurement Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investments. The Group manages its investments with a view to profiting from the receipt of interest and dividends and changes in fair value of equity investments. Therefore, all quoted investments and unquoted equity investments are designated as at fair value through profit or loss and subsequently carried in the balance sheet at fair value. Other investments including loan investments and fixed income shares are classified as loans and receivables and subsequently carried in the balance sheet at amortised cost less impairment. All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying 3i's valuation policies. Acquisition costs are attributed to equity investments and recognised immediately in profit or loss. Subsidiaries in the separate financial statements of the Company are accounted for at cost less provision for impairment.

(ii) Income Gross portfolio return is a key performance indicator and is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs but excluding exchange movements. Investment income is analysed into the following components:

a Realised profits over value on the disposal of investments is the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

b Unrealised profits on the revaluation of investments is the movement in carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.

c Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

- Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to that asset's carrying value.
- Dividends from equity investments are recognised in profit or loss when the shareholders' rights to receive payment have been established except to the extent that dividends, paid out of pre-acquisition reserves, adjust the fair value of the equity investment.
- Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

F Fund management The Group manages private equity funds, which primarily co-invest alongside the Group.

(i) Fund management fees Fees earned from the ongoing management of funds is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(ii) Carried interest receivable The Group earns a share of profits ("carried interest receivable") from funds which it manages on behalf of third parties. These profits are earned once the funds meet certain performance conditions.

Carried interest receivable is only accrued on those managed funds in which the fund's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

G Carried interest payable The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest payable" is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest scheme. Carried interest payable is only accrued on those schemes in which the scheme's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme.

H Property, plant and equipment

(i) Land and buildings Land and buildings are carried in the balance sheet at fair value less depreciation and impairment. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Any revaluation surplus is credited directly to the Capital reserve in equity except to the extent that it reverses a previous valuation deficit on the same asset charged in the income statement in which case the surplus is recognised in the income statement to the extent of the previous deficit. Any revaluation deficit that offsets a previously recognised surplus in the same asset is directly offset against the surplus in the Capital reserve. Any excess valuation deficit over and above the previously recognised surplus is charged in profit or loss.

Depreciation on revalued buildings is charged in the income statement over its estimated useful life, generally over 50 years. On subsequent sale or retirement of a revalued property, the attributable surplus in the Capital reserve is transferred directly to accumulated profits.

(ii) Vehicles and office equipment Fixed assets 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.

(iii) Assets held under finance leases Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term. Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The interest element of the rental obligations is charged in the income statement over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

I Investment property Investment properties are properties that are held either to earn rental income or for capital appreciation or for both.

(i) Recognition and measurement Investment properties are recorded at their fair value at the date of acquisition or upon classification as an Investment Property following a change of use. They are subsequently held in the balance sheet at fair value. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Gains or losses arising from the changes in fair value are recognised in profit or loss for the period in which they arise.

(ii) Income and expenditure Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised immediately in the income statement. Expenditure on investment properties is expensed as it accrues.

J Treasury assets and liabilities Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument.

(i) Cash and cash equivalents Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of changes in value, net of bank overdrafts.

(ii) Deposits Deposits in the balance sheet comprise longer term deposits with an original maturity of greater than three months.

(iii) Bank loans, loan notes and borrowings All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(iv) Convertible bonds Where a convertible bond has an issuer cash settlement option, the convertible bonds are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). On issue of the convertible bonds, the fair value of the derivative component is determined using a market rate for an equivalent derivative. Subsequent to initial recognition the conversion option is measured as a derivative financial instrument. The remainder of the proceeds is allocated to the liability component and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

Issue costs are apportioned between the liability and derivative component of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the derivative instrument is recognised initially as part of the financial derivative instrument.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible bonds.

(v) Derivative financial instruments Derivative financial instruments are used to manage the risks associated with foreign currency fluctuations of the investment portfolio and changes in interest rates on its borrowings. This is achieved by the use of foreign currency contracts, currency swaps and interest rate swaps. All derivative financial instruments are held at fair value.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of derivative financial instruments are taken through profit or loss.

(vi) Subordinated liabilities The Group has some limited recourse funding, which individually finances investment assets, at various fixed rates of interest and whose maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual Group entity to which the funds have been advanced and becomes non-repayable as the assets fail. These liabilities are held in the balance sheet at the amount expected to be repayable based on the underlying assets. Changes in the amounts repayable as a result of changes in the underlying assets are treated as other income in the income statement. Interest payable on subordinated liabilities is charged as it accrues by reference to the principal outstanding and the effective interest rate applicable.

K Employee benefits

(i) Retirement benefit costs Payments to defined contribution retirement benefit plans are charged as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date. Current service costs are recognised in profit or loss. Past service costs are recognised to the extent that they are vested immediately in profit or loss. Actuarial gains or losses are recognised in full as they arise as part of the statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligations as reduced by the fair value of plan assets.

(ii) Share-based payments In accordance with the transitional provisions of IFRS 1, the requirements of IFRS 2 have been applied to all grants of equity instruments after 7 November 2002, that were unvested at 1 January 2005.

The Group enters into arrangements that are equity-settled share-based payments with certain employees (including Directors). These are measured at fair value at the date of grant, which is then recognised in profit or loss on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of the Company. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative change since the previous balance sheet is recognised in the income statement, with a corresponding entry in equity.

L Other assets Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in profit or loss. An impairment loss is reversed at subsequent balance sheet dates to the extent that the asset's carrying amount does not exceed its carrying value had no impairment loss been recognised.

M Other liabilities Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

N Equity instruments Equity instruments issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. The nominal value of shares repurchased is transferred to the Capital redemption reserve in equity.

O Provisions Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the profit or loss for the period.

P Income taxes Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit ("temporary differences"), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised, and that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Notes to the financial statements

1 Segmental analysis

Year to 31 March 2006	Buyouts 2006 £m	Growth Capital 2006 £m	Venture Capital 2006 £m	Smaller Minority Investments 2006 £m	Total 2006 £m
Gross portfolio return					
Realised profits over value on the disposal of investments	208	232	72	64	576
Unrealised profits on the revaluation of investments	124	60	51	10	245
Portfolio income	115	49	5	63	232
	447	341	128	137	1,053
Net (investment)/divestment					
Realisation proceeds	877	855	207	268	2,207
New investment	(451)	(497)	(156)	(6)	(1,110)
	426	358	51	262	1,097
Balance sheet					
Value of investment portfolio	1,465	1,284	826	564	4,139

Year to 31 March 2005	Buyouts 2005 (as restated)* £m	Growth Capital 2005 (as restated)* £m	Venture Capital 2005 (as restated)* £m	Smaller Minority Investments 2005 (as restated)* £m	Total 2005 (as restated)* £m
Gross portfolio return					
Realised profits over value on the disposal of investments	103	110	35	2	250
Unrealised profits on the revaluation of investments	122	109	37	(23)	245
Portfolio income	76	66	4	86	232
	301	285	76	65	727
Net (investment)/divestment					
Realisation proceeds	505	443	156	198	1,302
New investment	(338)	(263)	(143)	(11)	(755)
	167	180	13	187	547
Balance sheet					
Value of investment portfolio	1,521	1,292	748	756	4,317

*As restated for the adoption of IFRS.

Year to 31 March 2006	UK 2006 £m	Continental Europe 2006 £m	US 2006 £m	Asia 2006 £m	Total 2006 £m
Gross portfolio return	392	586	27	48	1,053
Net (investment)/divestment					
Realisation proceeds	1,173	891	76	67	2,207
New investment	(409)	(540)	(70)	(91)	(1,110)
	764	351	6	(24)	1,097
Balance sheet					
Value of investment portfolio	1,740	1,925	307	167	4,139

Year to 31 March 2005	UK 2005 (as restated)* £m	Continental Europe 2005 (as restated)* £m	US 2005 (as restated)* £m	Asia 2005 (as restated)* £m	Total 2005 (as restated)* £m
Gross portfolio return	502	230	3	(8)	727
Net (investment)/divestment					
Realisation proceeds	897	365	34	6	1,302
New investment	(334)	(341)	(51)	(29)	(755)
	563	24	(17)	(23)	547
Balance sheet					
Value of investment portfolio	2,258	1,693	277	89	4,317

*As restated for the adoption of IFRS.

2 Realised profits over value on the disposal of investments

	Equity 2006 £m	Loans and receivables 2006 £m	Total 2006 £m	Equity 2005 (as restated)* £m	Loans and receivables 2005 (as restated)* £m	Total 2005 (as restated)* £m
Net proceeds	**1,643**	**564**	**2,207**	919	383	1,302
Valuation of disposed investments	**(981)**	**(584)**	**(1,565)**	(652)	(363)	(1,015)
Investments written off	**(20)**	**(46)**	**(66)**	(14)	(23)	(37)
	642	**(66)**	**576**	253	(3)	250

*As restated for the adoption of IFRS.

3 Unrealised profits on the revaluation of investments

	Equity 2006 £m	Loans and receivables 2006 £m	Total 2006 £m	Equity 2005 (as restated)* £m	Loans and receivables 2005 (as restated)* £m	Total 2005 (as restated)* £m
Movement in the fair value of equity	**381**	**–**	**381**	440	–	440
Impairment of loans and receivables	**–**	**(74)**	**(74)**	–	(129)	(129)
Provisions	**(40)**	**(22)**	**(62)**	(28)	(38)	(66)
	341	**(96)**	**245**	412	(167)	245

*As restated for the adoption of IFRS.

Provisions have been recognised on investments where it is considered there is a significant risk of failure.

4 Fees receivable

	2006 £m	2005 (as restated)* £m
Fees receivable	**39**	36
Deal-related costs	**(15)**	(9)
	24	27

*As restated for the adoption of IFRS.

Fees receivable include fees arising from the ongoing management of the portfolio together with fees arising from making investments. Deal-related costs represent fees incurred in the process to acquire an investment.

5 Carried interest

	Realised 2006 £m	Unrealised 2006 £m	Total 2006 £m	Realised 2005 (as restated)* £m	Unrealised 2005 (as restated)* £m	Total 2005 (as restated)* £m
Carried interest receivable from managed funds	**48**	**31**	**79**	2	–	2
Carried interest payable to executives	**(40)**	**(24)**	**(64)**	(30)	(36)	(66)
	8	**7**	**15**	(28)	(36)	(64)

*As restated for the adoption of IFRS.

Carried interest receivable represents the Group's share of profits from managed funds. Each managed fund is reviewed at the balance sheet date and income is accrued based on fund profits in excess of the performance conditions within the fund, taking into account cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest payable represents the amounts payable to executives from the Group's carried interest schemes. As with carried interest receivable, each scheme is separately reviewed at the balance sheet date, and an accrual made equal to the executives' share of profits in excess of the performance conditions in place in the scheme.

The above table shows carried interest on realised and unrealised assets.

6 Operating expenses

Operating expenses include the following amounts:

	2006 £m	2005 (as restated)* £m
Depreciation of property, plant and equipment		
Owned assets	**4**	3
Under finance leases	**–**	1

*As restated for the adoption of IFRS.

Services provided by the Group's auditor During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP:

	2006 £m	2005 (as restated)* £m
Audit services		
Statutory audit – UK	**0.9**	0.7
– overseas	**0.4**	0.3
Audit-related regulatory reporting	**0.1**	0.1
	1.4	1.1
Non-audit services		
Investment due diligence	**0.9**	0.2
Tax services (compliance and advisory services)	**0.1**	0.1
	2.4	1.4

*As restated for the adoption of IFRS.

Audit services The Group's auditor received £0.3 million (2005: £0.2 million) for the statutory audit of the Company.

Non-audit services These services are services that could be provided by a number of firms, including general consultancy work. Work is allocated to the auditors only if it does not impact the independence of the audit team. Due diligence provided by the auditors is carried out by teams which are independent of the audit process.

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

Included in the above are fees paid to the Group's auditor in respect of non-audit services in the UK of £0.4 million (2005: £0.2 million).

Auditor independence In addition to the above the Group has identified £0.4 million (2005: £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. Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditor for audit services to the pension scheme during the year were less than £0.1 million (2005: less than £0.1million).

7 Staff costs

	2006 £m	2005 (as restated)* £m
Wages and salaries	**91**	82
Social security costs	**14**	10
Share-based payment cost (note 8)	**8**	6
Pension costs (note 9)	**15**	15
	128	113

*As restated for the adoption of IFRS.

The average number of employees during the year was 733 (2005: 763).

Wages and salaries shown above include salaries paid in the year and bonuses relating to the year. These costs are charged against operating expenses.

8 Share-based payments

Equity-settled share option schemes

Share options The Group has a number of share option schemes that entitle employees to purchase shares in the Group. Options are exercisable at a price equal to the market value of the Company's shares on the date of grant. Each of the schemes has different vesting periods and conditions and these are summarised below:

The 3i Group 1994 Executive Share Option Plan Options granted between 1 January 1995 and 31 March 2001 were granted under this 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%.

The 3i Group Discretionary Share Plan 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 2003 and for options granted to three Directors in June 2003, 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 between 1 April 2003 and 31 March 2004 the performance period is extended to four years from the date of grant. For options granted after 31 March 2004, there is no opportunity for the performance condition to be retested after the three year performance period.

Options granted between 1 April 2001 and 31 March 2003 were subject to a performance condition that options would vest if the annual compound growth ("ACG") in net asset value per share with dividends re-invested was RPI plus 5%. If this target was achieved then 50% of the options would vest. If the ACG was in excess of RPI plus 10% then the maximum number of shares would vest. Options would vest pro rata if the ACG was between these two amounts. For options granted after 31 March 2003 the target ACG was RPI plus 3% with maximum vesting at RPI plus 8%, except for options granted to three Directors in June 2003 where the target ACG was RPI plus 5% with maximum vesting at RPI plus 10%. Details of all share options outstanding during the year are as follows:

	2006 Number of share options	2006 Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average exercise price (pence)
Outstanding at start of the year	**24,943,522**	**739**	22,919,966	761
Granted	**3,597,145**	**692**	4,687,971	600
Exercised	**(2,270,547)**	**543**	(704,603)	858
Lapsed	**(965,962)**	**868**	(1,959,812)	470
Outstanding at end of the year	**25,304,158**	**745**	24,943,522	739
Exercisable at end of the year	**4,860,952**	**837**	4,007,987	540

8 Share-based payments (continued)

Included within this balance are options over 13 million (2005: 16 million) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The range of exercise prices for options outstanding at the end of the year was:

Year of grant Year ended 31 March	Weighted average exercise price (pence)	2006 Number	2005 Number
1996	–	**–**	72,750
1997	457	**249,400**	872,422
1998	513	**964,373**	1,626,095
1999	623	**919,449**	1,595,624
2000	810	**1,235,026**	1,673,164
2001	1,341	**1,378,598**	1,610,538
2002	999	**5,119,104**	5,234,362
2003	663	**3,802,071**	3,885,130
2004	570	**3,694,970**	3,819,565
2005	599	**4,402,076**	4,553,872
2006	692	**3,539,091**	–
	745	**25,304,158**	24,943,522

The weighted average share price at the date of exercise during the year was 850p (2005: 645p). The options outstanding at the end of the year have a weighted average contractual life of 6.35 years (2005: 6.47 years). The cost of share options is spread over the vesting period of three to five years. The weighted average fair value of options granted during the year was 218p (2005: 193p). These fair values were calculated using the Black-Scholes option pricing model.

The inputs to this model were as follows:

	2006	2005
Weighted average share price (£)	**692**	600
Weighted average option price (£)	**692**	600
Average expected volatility (%)	**27**	29
Expected life (years)	**8.5**	8.5
Average risk free rate (%)	**4.3**	5.0
Average expected dividend yield (%)	**2.0**	2.5

The expected life of the option is based on the best estimate of the Directors following a review of the profile of the award holders. Expected volatility was determined using an average of the implied volatility on grant and historic share price volatility of the preceding 8.5 years. No options have been repriced during the year (2005: nil). All share options are equity settled.

Performance share awards Performance share awards are awards of shares to executive Directors 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 FTSE100 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.

8 Share-based payments (continued)

	2006 Number of shares	2005 Number of shares
Outstanding at start of the year	**443,107**	144,585
Granted	**152,865**	336,154
Forfeited	**(35,418)**	(37,632)
Outstanding at end of the year	**560,554**	443,107

The shares outstanding at the end of the year have a weighted average contractual life of 1.64 years (2005: 0.96 years). The cost of these shares is spread over the vesting period of three years.

The weighted average fair value of shares granted during the year was 343p (2005: 270p).

These fair values were calculated using the Monte Carlo option pricing model. The inputs to this model were as follows:

	2006	2005
Expected volatility (%)	**24**	40
Expected life (years)	**3**	3
Risk free rate (%)	**4.5**	4.8
Expected dividend yield (%)	**2.0**	2.0

In the current financial year expected volatility was determined using an average of the implied volatility and historic volatility of the Company's share price over the preceding three years, whereas in the prior year it was based on the historic volatility only. The expected volatility of the comparator group is 35% (2005:35%).

Share incentive plan Eligible UK employees 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 re-invested on behalf of participants in further shares (referred to as dividend shares).

The Company issues shares to cover the matching shares. The fair value of matching shares is the share price at the date of the award.

	2006 Number of shares	2005 Number of shares
Outstanding at start of the year	**424,575**	343,789
Granted	**120,567**	141,992
Exercised	**(78,857)**	(44,670)
Lapsed	**(17,138)**	(16,536)
Outstanding at end of the year	**449,147**	424,575

The average purchase price of the shares during the year was 798p (2005: 681p).

Deferred bonus share awards Certain employees receive an element of their bonus as shares. These shares are held in trust for two years. The Company purchases shares to cover the deferred shares awarded and these are held in the 3i Group Employee Trust in a nominee capacity. The fair value of the deferred shares is the share price at the date of the award.

8 Share-based payments (continued)

	2006 Number of shares	2005 Number of shares
Held in nominee capacity at start of the year	–	–
Awarded	85,957	–
Transferred to employee	–	–
Held in nominee capacity at end of year	85,957	–

The weighted average fair value of the shares awarded during the year was 698p (2005: nil).

Share trust The Group has a trust that is used to hold shares in 3i Group plc to meet its obligations under the above share schemes.

Total costs The total cost recognised in profit or loss for each of the share schemes is shown below. The cost is borne mainly by 3i plc, the main operating company of the Group.

	2006 £m	2005 £m
Share options	6.1	5.0
Performance shares	0.6	0.3
Share incentive plan	0.7	0.9
Deferred bonus shares	0.6	–
	8.0	6.2

9 Retirement benefit obligation

Retirement benefit plans

Defined contribution plans The Group operates a number of defined contribution retirement benefit plans for qualifying employees outside the UK. A new defined contribution scheme for UK employees was set up on 1 April 2006. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state-managed retirement benefit plan operated by the country's government. The French subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group is to make the contributions.

The total expense recognised in profit or loss is £4 million (2005: £3 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date.

Defined benefit scheme The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK. The Plan is not offered to new employees joining 3i on or after 1 April 2006. The Plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees.

The last full actuarial valuation at 30 June 2004 was updated for 31 March 2006 on an IAS 19 basis by an independent qualified actuary.

The principal assumptions made by the actuaries used for the purpose of the year end valuation were as follows:

	2006	2005
Discount rate	4.6%	5.4%
Expected rate of salary increases	4.2%	4.5%
Expected rate of pension increases	3.0%	3.1%
Price inflation	2.7%	3.0%
Expected return on Plan assets	5.7%	6.4%

The post-retirement mortality assumptions used to value the benefit obligation at 31 March 2005 and 31 March 2006 are based on the "PA92 medium cohort" table with a current year of use.

9 Retirement benefit obligation (continued)

The amount recognised in the balance sheet in respect of the Group's defined benefit plans is as follows:

	2006 £m	2005 £m
Present value of funded obligations	472	390
Fair value of Plan assets	(455)	(367)
	17	23

Amounts recognised in profit or loss in respect of the defined benefit plan are as follows:

	2006 £m	2005 £m
Operating costs		
Current service costs	11	10
Past service cost	–	2
Net finance costs		
Expected return on Plan assets	(23)	(21)
Interest on obligation	21	20
Statement of recognised income and expenses		
Actuarial loss	16	1
	25	12

Changes in the present value of the defined benefit obligation were as follows:

	2006 £m	2005 £m
Opening defined benefit obligation	390	355
Current service cost	11	10
Past service cost	–	2
Interest cost	21	20
Actuarial losses	63	14
Contributions	1	–
Benefits paid	(14)	(11)
Closing defined benefit obligation	472	390

Changes in the fair value of the Plan assets were as follows:

	2006 £m	2005 £m
Opening fair value of Plan assets	367	272
Expected returns	23	21
Actuarial gains	48	13
Contributions	31	72
Benefits paid	(14)	(11)
Closing fair value of Plan assets	455	367

Contributions paid to the Group Pension Plan are related party transactions as defined by IAS 24 Related party transactions ("IAS 24").

The fair value of the Plan assets at the balance sheet date is as follows:

	2006 £m	2005 £m
Equities	245	205
Gilts	190	162
Cash equivalents	20	–
	455	367

The Plan assets do not include any of the Group's own equity instruments nor any property in use by the Group. The expected rate of returns on individual categories of Plan assets is determined by reference to individual indices.

9 Retirement benefit obligation (continued)

The history of the Plan for the current and prior period is as follows:

	2006 £m	2005 £m
Present value of defined benefit obligation	472	390
Fair value of Plan assets	(455)	(367)
Deficit	17	23
Experience adjustments on Plan liabilities	–	(4)%
Experience adjustments on Plan assets	(11)%	(4)%

In accordance with the transitional provisions for the amendment to IAS 19 Retirement Benefits in December 2004, the disclosures above are from the transition date of 1 April 2004.

The Group expects to make contributions of approximately £10 million to the Plan in the year to 31 March 2007.

Employees in Germany are entitled to a pension based on their length of service. 3i Deutschland GmbH contributes to individual investment policies for its employees and has agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of 3i Deutschland GmbH's investment policies intended to cover pension liabilities is £3 million (2005: £2 million) and the future liability calculated by German actuaries is £4 million (2005: £3 million). The Group carries both the asset and liability in its consolidated financial statements.

10 Net interest receivable/(payable)

	2006 £m	2005 (as restated)* £m
Treasury interest receivable		
Interest on bank deposits	55	46
Interest payable		
Interest on loans and borrowings	(58)	(73)
Interest on Convertible Bonds	(5)	(5)
Amortisation of Convertible Bonds	(8)	(8)
Interest on subordinated borrowings	(3)	(3)
Finance income on pension plan	2	1
	(72)	(88)
Net interest receivable/(payable)	(17)	(42)

*As restated for the adoption of IFRS.

11 Movements in the fair value of derivatives

	2006 £m	2005 (as restated)* £m
Forward foreign exchange contracts	(3)	16
Currency swaps	6	3
Interest rate swaps	(6)	(17)
Derivative element of Convertible Bonds	(75)	11
	(78)	13

*As restated for the adoption of IFRS.

12 Exchange movements

	2006 £m	2005 (as restated)* £m
Exchange movements on items recorded in currencies different from the functional currency of the entity	47	13
Total exchange movements in the income statement	47	13
Exchange differences on translation of foreign operations	(5)	5
Net exchange movement	42	18

*As restated for the adoption of IFRS.

13 Other income

	2006 £m	2005 (as restated)* £m
Write-back of subordinated borrowings	20	–
Gain on disposal of property	2	–
Gain on revaluation of investment property	–	1
	22	1

*As restated for the adoption of IFRS.

14 Income taxes

	2006 £m	2005 (as restated)* £m
Current tax		
Current year	(3)	(3)
Adjustments in respect of previous periods	–	–
	(3)	(3)
Deferred tax		
Deferred income tax	–	–
Total income taxes in the income statement	(3)	(3)

*As restated for the adoption of IFRS.

The tax charge for the period is different to the standard rate of corporation tax in the UK, currently 30% (2005: 30%), and the differences are explained below:

Reconciliation of income taxes in the income statement

	2006 £m	2005 (as restated)* £m
Profit before tax	855	501
Profit before tax multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	(256)	(150)
Effects of:		
Permanent differences	6	3
Short-term timing differences	1	(2)
Current period unutilised tax losses	(7)	(2)
Non-taxable UK dividend income	20	31
Repatriated profits of overseas subsidiaries	(1)	(7)
Foreign tax	(3)	(1)
Foreign tax credits available for double tax relief	1	1
Realised profits, changes in fair value and impairment losses not taxable	236	124
Adjustments to tax in respect of prior periods	–	–
Total income taxes in the income statement	(3)	(3)

*As restated for the adoption of IFRS.

14 Income taxes (continued)

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non taxable.

	Consolidated balance sheet 2006 £m	Consolidated balance sheet 2005 (as restated)* £m	**Consolidated income statement 2006 £m**	Consolidated income statement 2005 (as restated)* £m
Deferred income tax assets				
Tax losses	**2**	2	**–**	(1)
Gross deferred income tax assets	**2**	2		
Deferred income tax liabilities				
Unrealised valuation surpluses on investments	**–**	(1)	**1**	–
Income in accounts taxable in the future	**(3)**	(2)	**(1)**	1
Gross deferred income tax liabilities	**(3)**	(3)		
Deferred tax income tax charge			**–**	–

*As restated for the adoption of IFRS.

At 31 March 2006 the Group had tax losses carried forward of £560 million (2005: £550 million). It is unlikely that the Group will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised. These tax losses are available to carry forward indefinitely.

15 Investment portfolio

	Group Equity investments 2006 £m	**Group Loans and receivables 2006 £m**	**Group Total 2006 £m**
Opening book value	**2,917**	**1,400**	**4,317**
Additions	**464**	**646**	**1,110**
Disposals, repayments and write-offs	**(1,001)**	**(630)**	**(1,631)**
Revaluation	**341**	**–**	**341**
Provision and impairment of loans and receivables	**–**	**(96)**	**(96)**
Other movements	**52**	**46**	**98**
Closing book value	**2,773**	**1,366**	**4,139**
Quoted	**259**	**–**	**259**
Unquoted	**2,514**	**1,366**	**3,880**
	2,773	**1,366**	**4,139**

Other movements includes foreign exchange, reclassifications of joint ventures and conversions from one instrument into another.

15 Investment portfolio (continued)

Additions to loans and receivables includes £45 million (2005: £36 million) interest received by way of loan notes. A corresponding amount has been included in income from loans and receivables.

	Group Equity investments 2005 (as restated)* £m	Group Loans and receivables 2005 (as restated)* £m	Group Total 2005 (as restated)* £m
Opening book value	2,900	1,462	4,362
Additions	294	461	755
Disposals, repayments and write-offs	(666)	(386)	(1,052)
Revaluation	412	–	412
Provision and impairment of loans and receivables	–	(167)	(167)
Other movements	(23)	30	7
Closing book value	2,917	1,400	4,317
Quoted	235	–	235
Unquoted	2,682	1,400	4,082
	2,917	1,400	4,317

*As restated for the adoption of IFRS.

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the Directors have classified the portfolio as non-current. It is not possible to identify with certainty investments that will be sold within one year.

16 Interest in joint ventures

Two joint ventures were reclassified during the year, as described below.

The Group had a 50% equity share in DIAB Intressenter AB, a joint venture set up to acquire the assets and business of Atle AB, a Swedish venture capital company, with Ratos AB. DIAB Intressenter AB now holds a single investment in DIAB AB, and as such is considered a portfolio investment designated as fair value through profit or loss.

The Group had a 50% equity share in Atle Industri AB, a venture capital fund established with a joint venture partner Ratos AB to hold a small number of investments previously owned by Atle AB. As these investments are held and managed on the same basis as other portfolio investments, the joint venture has been reclassified as a portfolio investment designated as fair value through profit or loss.

Income statement	**Group 2006 £m**	Group 2005 (as restated)* £m
Realised profit over value on the disposal of investments	**–**	3
Unrealised profits on the revaluation of investments	**(5)**	16

Balance sheet	**Group 2006 £m**	Group 2005 (as restated)* £m
Interests in joint ventures	**–**	46
Represented by:		
Cost	**–**	121
Share of post acquisition retained surpluses less losses	**–**	(13)
Impairment	**–**	(62)
	–	46

*As restated for the adoption of IFRS.

17 Interests in Group entities

	Equity investments £m	Long-term loans and receivables £m	Total £m
Opening book value*	122	859	981
Additions	122	452	574
Share of profits	–	71	71
Disposals and repayments	(22)	(147)	(169)
Impairment	–	(5)	(5)
Exchange movements	–	31	31
Closing book value	222	1,261	1,483

*As restated for the adoption of IFRS.

Details of significant Group entities are given in note 37.

18 Property, plant and equipment

Land and buildings	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Opening cost or valuation	25	26	25	25
Additions at cost	1	–	–	–
Disposals	(17)	–	(17)	–
Revaluation	1	(1)	1	–
Closing cost or valuation	10	25	9	25
Net book amount	10	25	9	25

*As restated for the adoption of IFRS.

Depreciation charged in the year on buildings was £0.1 million (2005: £0.1 million).

Plant and equipment	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Opening cost or valuation	51	59	–	–
Additions at cost	18	4	–	–
Disposals	(12)	(12)	–	–
Closing cost or valuation	57	51	–	–
Opening accumulated depreciation	43	50	–	–
Charge for the year	4	4	–	–
Disposals	(11)	(11)	–	–
Closing accumulated depreciation	36	43	–	–
Net book amount	21	8	–	–

*As restated for the adoption of IFRS.

Assets held under finance leases (all vehicles) have the following net book amount:

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Cost	1	2	–	–
Aggregate depreciation	–	(1)	–	–
Net book amount	1	1	–	–

*As restated for the adoption of IFRS.

18 Property, plant and equipment (continued)

Finance lease rentals are payable as follows:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Between one and five years	1	1	–	–

The Group's freehold properties and long leasehold properties are revalued at each balance sheet date by professional valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by CBRE and Howell Brooks, independent Chartered Surveyors.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the capital reserve.

19 Investment property

	Group 2006 £m	Group 2005 (as restated)* £m
Opening book value	6	5
Disposals	(6)	–
Revaluation	–	1
Closing book value	–	6

*As restated for the adoption of IFRS.

During the year, the Group's remaining investment property was sold.

20 Other current assets

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Prepayments	92	62	57	47
Other debtors	57	54	89	90
Amounts due from subsidiaries	–	–	47	28
	149	116	193	165

*As restated for the adoption of IFRS.

21 Financial risk management

The funding objective of the Group and Company is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets and that funding needs are met ahead of planned investment.

Credit risk 3i's financial assets are predominantly unsecured investments in unquoted companies, in which the Directors consider the maximum credit risk to be the carrying value of the asset. The portfolio is well diversified and for this reason credit risk exposure is managed on an asset-specific basis by investment managers.

Liquidity risk During the financial year 3i generated a surplus of £1,089 million (2005: £562 million) from its investing activities and cash resources at the end of the period amounted to £1,955 million (2005: £1,199 million). In addition, the Group had available to it undrawn facilities of £488 million at 31 March 2006 (2005: £764 million). The Directors currently view liquidity risk as low.

Price risk The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. 3i does not hedge the market risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

Foreign exchange risk 3i reports in sterling and pays dividends from sterling profits. The Directors seek to reduce structural currency exposures by matching assets denominated in foreign currency with borrowings in the same currency. The Group makes some use of derivative financial instruments to effect foreign exchange management. The exposure to the Euro, US dollar, Swedish krona, Swiss franc and all other currencies combined is shown in the table below.

	Sterling 2006 £m	Euro 2006 £m	US dollar 2006 £m	Swedish krona 2006 £m	Swiss franc 2006 £m	Other 2006 £m	Total 2006 £m
Total assets	**3,820**	**1,511**	**475**	**385**	**124**	**55**	**6,370**
Total liabilities	**(103)**	**(1,453)**	**(370)**	**(316)**	**(92)**	**(30)**	**(2,364)**
Net assets	**3,717**	**58**	**105**	**69**	**32**	**25**	**4,006**

	Sterling 2005 (as restated)* £m	Euro 2005 (as restated)* £m	US dollar 2005 (as restated)* £m	Swedish krona 2005 (as restated)* £m	Swiss franc 2005 (as restated)* £m	Other 2005 (as restated)* £m	Total 2005 (as restated)* £m
Total assets	3,862	1,102	449	211	104	33	5,761
Total liabilities	(1,192)	(618)	(69)	(158)	–	(25)	(2,062)
Net assets	2,670	484	380	53	104	8	3,699

*As restated for the adoption of IFRS.

Cash flow interest rate risk 3i has a mixture of fixed and floating rate assets. The assets are funded with a mixture of shareholders' funds and borrowings according to the risk characteristics of the assets. The Directors seek to minimise interest rate exposure by matching the type and maturity of the borrowings to those of the corresponding assets. Some derivative financial instruments are used to achieve this objective.

The interest rate profile of the financial assets and liabilities of the Group is shown in the table below by the earlier of the contractual repricing or maturity date.

	Within 1 year 2006 £m	1–2 years 2006 £m	2–3 years 2006 £m	3–4 years 2006 £m	4–5 years 2006 £m	Over 5 years 2006 £m	Total 2006 £m
Fixed rate							
Loans and receivables	**28**	**41**	**63**	**42**	**121**	**889**	**1,184**
Deposits	**1,108**						**1,108**
Cash and cash equivalents	**847**						**847**
Loans and borrowings	**(230)**	**(200)**				**(600)**	**(1,030)**
Convertible Bonds			**(365)**				**(365)**
Subordinated liabilities						**(24)**	**(24)**
Derivatives	**188**	**(282)**	**(32)**	**(19)**	**(164)**	**(406)**	**(715)**
	1,941	**(441)**	**(334)**	**23**	**(43)**	**(141)**	**1,005**
Floating rate							
Loans and receivables	**182**						**182**
Loans and borrowings	**(444)**						**(444)**
Derivatives	**715**						**715**
	453						**453**

21 Financial risk management (continued)

	Within 1 year 2005 (as restated)* £m	1–2 years 2005 (as restated)* £m	2–3 years 2005 (as restated)* £m	3–4 years 2005 (as restated)* £m	4–5 years 2005 (as restated)* £m	Over 5 years 2005 (as restated)* £m	Total 2005 (as restated)* £m
Fixed rate							
Loans and receivables	46	30	94	87	44	813	1,114
Deposits	885						885
Cash and cash equivalents	314						314
Loans and borrowings	(98)	(4)	(200)			(600)	(902)
Convertible Bonds				(352)			(352)
Subordinated liabilities						(50)	(50)
Derivatives	(45)	178	(275)	(32)	(21)	(292)	(487)
	1,102	204	(381)	(297)	23	(129)	522
Floating rate							
Loans and receivables	286						286
Loans and borrowings	(396)						(396)
Derivatives	487						487
	377						377

*As restated for the adoption of IFRS.

The derivatives line shows the notional value of currency and interest rate swaps.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Fair value interest rate risk The fair value of 3i's derivative assets and liabilities is subject to interest rate risk. At 31 March 2006 the fair value of derivative financial instruments was £149 million (2005: £45 million).

22 Derivative financial instruments

	Group 2006 £m	Group 2005 (as restated)* £m	**Company 2006 £m**	Company 2005 (as restated)* £m
Current assets				
Forward foreign exchange contracts	**4**	19	**4**	19
Currency swaps	**–**	1	**–**	1
Interest rate swaps	**15**	15	**15**	15
	19	35	**19**	35
Current liabilities				
Forward foreign exchange contracts	**(12)**	(3)	**(12)**	(3)
Currency swaps	**(3)**	(7)	**(3)**	(7)
Interest rate swaps	**(57)**	(50)	**(49)**	(36)
Derivative element of Convertible Bonds	**(96)**	(20)	**(96)**	(20)
	(168)	(80)	**(160)**	(66)

*As restated for the adoption of IFRS.

22 Derivative financial instruments (continued)

Forward foreign exchange contracts and currency swaps The Group uses forward exchange contracts and currency swaps to minimise the effect of fluctuations in the value of the investment portfolio from movement in exchange rates. Foreign currency interest-bearing loans and borrowings are also used for this purpose.

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to profit or loss.

At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts is as follows:

	2006 £m	2005 (as restated)* £m
Forward foreign currency contracts	1,392	825
Currency swaps	35	68
	1,427	893

*As restated for the adoption of IFRS.

Interest rate swaps The Group uses interest rate swaps to manage its exposure to interest rate movements on its interest-bearing loans and borrowings. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to profit or loss.

At the balance sheet date, the notional amount of outstanding interest rate swaps is as follows:

	2006 £m	2005 (as restated)* £m
Fixed rate to variable rate	340	430
Fixed rate to fixed rate	70	70
Variable rate to fixed rate	1,020	849
Variable rate to variable rate	170	170
	1,600	1,519

*As restated for the adoption of IFRS.

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 derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. Movements in the fair value of derivatives are included in the income statement.

23 Loans and borrowings

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Loans and borrowings	1,474	1,298	1,198	981
Loans and borrowings are repayable as follows:				
Within one year	231	102	230	102
In the second year	400	155	200	79
In the third year	94	400	94	200
In the fourth year	–	40	–	–
In the fifth year	149	–	74	–
After five years	600	601	600	600
	1,474	1,298	1,198	981

*As restated for the adoption of IFRS.

23 Loans and borrowings (continued)

Principal borrowings include:

	Rate	Maturity	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Notes issued under the £2,000 million note issuance programme						
Fixed rate						
£200 million notes (public issue)	6.875%	2007	**200**	200	**200**	200
£200 million notes (public issue)	6.875%	2023	**200**	200	**200**	200
£400 million notes (public issue)	5.750%	2032	**400**	400	**400**	400
Variable rate						
£200 million notes (public issue)	LIBOR+0.100%	2007	**200**	200	**–**	–
Other			**94**	4	**94**	4
			1,094	1,004	**894**	804
Committed multi-currency facilities						
£486 million (negotiated September 2005)	LIBOR+0.210%	2010	**–**	–	**–**	–
£150 million (negotiated November 2005)	LIBOR+0.175%	2010	**148**	–	**74**	–
£360 million (facility expired)			**–**	151	**–**	76
£595 million (facility expired)			**–**	40	**–**	–
			148	191	**74**	76
Other						
Other bonds in issue		2010	**1**	1	**–**	–
Other borrowings			**2**	101	**2**	101
Euro commercial paper			**228**	–	**228**	–
Finance lease obligations			**1**	1	**–**	–
			232	103	**230**	101
Total loans and borrowings			**1,474**	1,298	**1,198**	981

*As restated for the adoption of IFRS.

The drawings under the committed multi-currency facilities are repayable within one year but have been classified as repayable at the maturity date as immediate replacement funding is available until those maturity dates. The undrawn commitment fee on the £150 million committed multi-currency facility is 0.05%. The margin on this facility increases to 0.20% if the drawn amount is greater than 50% of the facility. The undrawn commitment fee on the £486 million committed multi-currency facility is 0.08%. The margin on this facility increases to 0.235% if the drawn amount is between 33% and 66% of the facility, and to 0.26% if the drawn amount is greater than 66% of the facility.

The other borrowings in 2005 principally relate to deposits taken when the Company was a licensed deposit taker. This activity has now ceased.

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loan and borrowings is £1,543 million (2005: £1,359 million).

24 Convertible Bonds

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Opening balance	**352**	334	**352**	334
Amortised during the year	**8**	8	**8**	8
Exchange movements	**5**	10	**5**	10
Closing balance	**365**	352	**365**	352

*As restated for the adoption of IFRS.

On 1 August 2003, 3i Group plc issued €550 million 1.375% Convertible Bonds due 2008. The 3i share price on 1 August 2003 was 635p (31 March 2006: 941p). 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, which has subsequently been adjusted to £8.38 following the share consolidation and special dividend in July 2005. The issuer may make a payment in cash as an alternative to issuing shares upon either conversion or redemption. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008. Interest is payable on the bonds in equal semi-annual instalments in arrears on 12 January and 12 July each year.

On issue, part of the proceeds of the Convertible Bonds was recognised as a derivative instrument. The remaining amount is recognised as a loan and is being held at amortised cost. The effective interest rate is 4.1%. The fair value of the loan element of the Convertible Bonds is £366 million (2005: £362 million).

25 Subordinated liabilities

	Group 2006 £m	Group 2005 (as restated)* £m
Subordinated liabilities are repayable as follows:		
After five years	**24**	50

*As restated for the adoption of IFRS.

Subordinated liabilities comprise limited recourse funding from Kreditanstalt fur Wiederaufbau ("KfW"), a German federal bank. Repayment of the funding, which individually finances investment assets, is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the German subsidiaries to which these funds have been advanced and in certain cases becomes non-repayable as assets fail.

26 Trade and other payables

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Other accruals	**160**	135	**42**	28
Amounts due to subsidiaries	**–**	–	**229**	226
	160	135	**271**	254

*As restated for the adoption of IFRS.

The Directors consider that the fair value of other accruals approximates to the carrying value of other accruals.

27 Provisions

	2006 Property £m	2006 Redundancy £m	2006 Total £m
Opening balance	6	6	12
Charge for year	1	4	5
Utilised in year	(2)	(5)	(7)
Movement for the year	(1)	(1)	(2)
Closing balance	5	5	10

The provision for redundancy relates to staff reductions announced this financial year and the prior financial year. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease, and have been provided for to the extent they are not covered by income from sub-leases.

28 Issued capital

Authorised	2006 Number	2006 £m	2005 Number	2005 £m
Ordinary shares of 50p	–	–	820,000,000	410
Ordinary shares of 53⅛p	771,764,704	410	–	–
Unclassified shares of 10p	1,000,000	–	1,000,000	–

Issued and fully paid	2006 Number	2006 £m	2005 Number	2005 £m
Ordinary shares of 50p				
Opening balance	614,409,167	307	613,479,159	307
Issued on exercise of share options and under the 3i Group Share Incentive Plan	268,792	–	930,008	–
Share consolidation	(614,677,959)	(307)	–	–
Closing balance	–	–	614,409,167	307

During the period 1 April 2005 to 10 July 2005, the Company issued shares for cash on the exercise of share options at various prices from 361p to 664p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme, which were issued at 583p and 975p per share). The Company repurchased 400,452 ordinary shares of 50p each at 683p per share. These shares were cancelled after the Company consolidated its share capital on 11 July 2005.

On 11 July 2005, the Company consolidated its issued share capital on the basis of 16 ordinary shares of 53⅛p each for every 17 ordinary shares of 50p each held. This coincided with the payment of a special dividend of 40.7p per share.

	2006 Number	2006 £m	2005 Number	2005 £m
Ordinary shares of 53⅛p				
Opening balance	–	–	–	–
Share consolidation	578,520,432	307	–	–
Issued on exercise of share options and under the 3i Group Share Incentive Plan	2,222,966	1	–	–
Shares cancelled	(30,186,896)	(16)	–	–
Closing balance	550,556,502	292	–	–

Since 11 July 2005 up to 31 March 2006, the Company issued shares for cash on the exercise of share options at various prices from 467p to 805p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme, which were issued at 583p and 975p per share). The Company repurchased 29,810,000 ordinary shares of 53⅛p each at an average price of 734p per share. These shares, and those purchased before the share consolidation, amounting to a total of 30,186,896 ordinary shares of 53⅛p each, were cancelled and a transfer made to the capital redemption reserve equal to the nominal value of the shares repurchased.

29 Equity

	Group Share capital 2006 £m	Group Share premium 2006 £m	Group Capital redemption reserve 2006 £m	Group Share-based payment reserve 2006 £m	Group Translation reserve 2006 £m	Group Capital reserve 2006 £m	Group Revenue reserve 2006 £m	Group Own shares 2006 £m	Group Total equity 2006 £m
Opening balance	**307**	**364**	**1**	**9**	**5**	**2,613**	**477**	**(77)**	**3,699**
Total recognised income and expense					(5)	719	117		831
Share-based payments				8					8
Issues of shares	1	12							13
Dividends paid							(331)		(331)
Share buy-backs	(16)		16			(222)			(222)
Own shares								8	8
Closing balance	**292**	**376**	**17**	**17**	**–**	**3,110**	**263**	**(69)**	**4,006**

	Group Share capital 2005 (as restated)* £m	Group Share premium 2005 (as restated)* £m	Group Capital redemption reserve 2005 (as restated)* £m	Group Share-based payment reserve 2005 (as restated)* £m	Group Translation reserve 2005 (as restated)* £m	Group Capital reserve 2005 (as restated)* £m	Group Revenue reserve 2005 (as restated)* £m	Group Own shares 2005 (as restated)* £m	Group Total equity 2005 (as restated)* £m
Opening balance	307	359	1	3		2,246	433	(55)	3,294
Total recognised income and expense					5	367	129		501
Share-based payments				6					6
Dividends paid							(85)		(85)
Issues of shares		5							5
Own shares								(22)	(22)
Closing balance	307	364	1	9	5	2,613	477	(77)	3,699

*As restated for the adoption of IFRS.

	Company Share capital 2006 £m	Company Share premium 2006 £m	Company Capital redemption reserve 2006 £m	Company Capital reserve 2006 £m	Company Revenue reserve 2006 £m	Company Total equity 2006 £m
Opening balance	**307**	**364**	**1**	**2,433**	**521**	**3,626**
Total recognised income and expense				556	87	643
Issues of shares	1	12				13
Dividends paid					(331)	(331)
Share buy-backs	(16)		16	(222)		(222)
Closing balance	**292**	**376**	**17**	**2,767**	**277**	**3,729**

	Company Share capital 2005 (as restated)* £m	Company Share premium 2005 (as restated)* £m	Company Capital redemption reserve 2005 (as restated)* £m	Company Capital reserve 2005 (as restated)* £m	Company Revenue reserve 2005 (as restated)* £m	Company Total equity 2005 (as restated)* £m
Opening balance	307	359	1	2,120	513	3,300
Total recognised income and expense				313	93	406
Dividends paid					(85)	(85)
Issues of shares		5				5
Closing balance	307	364	1	2,433	521	3,626

*As restated for the adoption of IFRS.

Capital redemption reserve The Company is required to establish this reserve on the redemption or repurchase of its own shares.

Share-based payment reserve The share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

Translation reserve The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations.

Capital reserve The capital reserve recognises all profits that are capital in nature or have been allocated to capital. These profits are not distributable by way of dividend.

Revenue reserve The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.

30 Own shares

	2006 £m	2005 £m
Opening cost	**77**	55
Additions	**–**	25
Disposals	**(8)**	(3)
Closing cost	**69**	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 2006 was £104 million (2005: £84 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.

31 Per share information

The earnings and net assets per share attributable to the equity shareholders of the Company are based on the following data:

	2006	2005 (as restated)*
Earnings per share (pence)		
Basic	**152.0**	82.6
Diluted	**147.3**	81.0
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	**852**	498
Effect of dilutive potential ordinary shares	**14**	11
	866	509

*As restated for the adoption of IFRS.

	2006 Number	2005 Number
Number of shares		
Weighted average number of shares in issue	**560,684,598**	603,240,340
Effect of dilutive potential ordinary shares		
Share options	**2,744,369**	119,980
Convertible Bonds	**24,750,000**	24,750,000
Diluted shares	**588,178,967**	628,110,320

	2006	2005 (as restated)*
Net assets per share (pence)		
Basic	**743**	615
Diluted	**739**	614
Net assets (£m)		
Net assets attributable to equity holders of the Company	**4,006**	3,699

*As restated for the adoption of IFRS.

	2006 Number	2005 Number
Number of shares in issue	**539,475,744**	601,912,869
Effect of dilutive potential ordinary shares		
Share options	**2,916,552**	1,007,723
	542,392,296	602,920,592

*As restated for the adoption of IFRS.

32 Dividends

	2006 pence per share	2006 £m	2005 (as restated)* pence per share	2005 (as restated)* £m
Declared and paid during the period				
Ordinary shares				
Final dividend	**9.3**	**56**	8.9	53
Special dividend	**40.7**	**245**	–	–
Interim dividend	**5.5**	**30**	5.3	32
	55.5	**331**	14.2	85
Proposed dividend	**9.7**	**52**	9.3	56

*As restated for the adoption of IFRS.

33 Operating leases

Leases as lessee Future minimum payments due under non-cancellable operating lease rentals are as follows:

	2006 £m	2005 £m
Less than one year	**6**	6
Between one and five years	**32**	33
More than five years	**39**	45
	77	84

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2006, £6 million was recognised as an expense in the income statement in respect of operating leases (2005: £9 million). £2 million was recognised as income in the income statement in respect of subleases (2005: £2 million).

34 Commitments

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Share and loan investments	**470**	431	**250**	377

Most of the above commitments are expected to be settled in the following financial year.

35 Contingent liabilities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	**13**	21	**13**	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.

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £150 million and the £486 million revolving credit facilities. At 31 March 2006, 3i Holdings plc had drawn down £74 million (2005: £nil) under the first facility.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of the liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan.

At 31 March 2006, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

36 Related parties

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investments and its key management personnel. In addition the Company has related parties in respect of its subsidiaries.

Limited partnerships The Group manages funds on behalf of third parties. These funds invest through a number of limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them.

The following amounts have been included in respect of these limited partnerships:

Income statement	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Carried interest receivable	79	2	79	2
Fund management fees	24	30	–	–

Balance sheet	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Carried interest receivable	77	9	77	9
Amount due from limited partnerships	3	4	–	–

*As restated for the adoption of IFRS.

Investments The Group makes minority investments in the equity of unquoted companies. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

Income statement	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Realised profits over value on the disposal of investments	374	209	292	183
Unrealised profits on the revaluation of investments	78	115	57	88
Portfolio income	203	184	72	152

Balance sheet	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Quoted equity investments	66	75	46	60
Unquoted equity investments	1,721	1,823	974	1,400
Loan and receivables	1,317	1,297	694	911

*As restated for the adoption of IFRS.

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. There have been no single transactions in the year with a material effect on the Group's financial statements and all such transactions are fully included in the above disclosure.

36 Related parties (continued)

Key management personnel The Group's key management personnel comprises the members of Management Committee and the Board's non-executive directors. The remuneration of key management personnel was:

	Group 2006 £m	Group 2005 (as restated)* £m
Salaries, fees, supplements and benefits in kind	5	4
Bonuses and deferred share bonuses	6	3
Increase in accrued pension	–	–
Carried interest payable within one year	4	2
Carried interest payable after one year	5	4
Share-based payments	1	1

*As restated for the adoption of IFRS.

Subsidiaries Transactions between the Company and its subsidiaries, which are related parties of the Company are eliminated on consolidation. Details of related party transactions between the Company, and its subsidiaries are detailed below.

Management, administrative and secretarial arrangements The Company has appointed 3i Investments plc, a wholly owned subsidiary of the Company incorporated in England, as investment manager of the Group. 3i Investments plc received a fee of £26 million (2005: £26 million) for this service.

The Company has appointed 3i plc, a wholly owned subsidiary of the Company incorporated in England, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £126 million (2005: £102 million) for this service.

Investment entities The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent depending on the jurisdiction of the investment. The Company receives interest on this funding and receives dividends and distributions from these entities.

	Company 2006 £m	Company 2005 (as restated)* £m
Realised profit/(loss) over fair value on the disposal of investments	54	(79)
Dividends	41	11
Interest	1	1

*As restated for the adoption of IFRS.

Other subsidiaries The Company borrows funds from certain subsidiaries and pays interest on the outstanding balances. The amounts that are included in the Company's income statement are as follows:

	Company 2006 £m	Company 2005 (as restated)* £m
Interest	2	5

*As restated for the adoption of IFRS.

37 Group entities

Significant subsidiaries

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	England and Wales	1,000,000 shares of £1	Holding company	16 Palace Street London SW1E 5JD
3i International Holdings	England and Wales	2,715,973 shares of £10	Holding company	
3i plc	England and Wales	110,000,000 shares of £1	Services	
3i Investments plc	England and Wales	10,000,000 ordinary shares of £1	Investment manager	
3i Europe plc	England and Wales	500,000 ordinary shares of £1	Investment advisory services	
3i Nordic plc	England and Wales	500,000 ordinary shares of £1	Investment advisory services	
3i Asia Pacific plc	England and Wales	140,000 ordinary shares of £1	Investment advisory services	
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee	
3i Corporation	US	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	3 rue Paul Cézanne Paris, 75008 France

The list above comprises the principal subsidiary undertakings as at 31 March 2006 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 2006, 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.

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. Full information will be annexed to the Company's next annual return.

38 Reconciliations of UK GAAP to IFRS for comparative periods

Under IFRS, the "Total recognised income and expense" is the equivalent of "Total return", as reported previously. In order to comply with IFRS 1, we provide below a reconciliation of total return to the net profit per the income statement.

	Note	Group 2005 £m	Company 2005 £m
Total return under UK GAAP		512	433
IAS 39 – Quoted investments	(a)	(11)	(15)
IAS 39 – Fair value of derivatives	(b)	1	(8)
IAS 39 – Convertible Bonds	(c)	5	5
IFRS 2 – Share-based payments	(d)	(6)	–
IAS 21 – Functional currencies and exchange rates	(e)	(5)	(2)
IAS 16 – Own use property	(f)	1	1
IAS 19 – Retirement benefits	(g)	1	–
IAS 27 – Consolidation of limited partnerships	(i)	–	(7)
Profit under IFRS		498	407

	Note	Group 31 March 2005 £m	Group 1 April 2004 £m	Company 31 March 2005 £m	Company 1 April 2004 £m
Total equity under UK GAAP		3,637	3,230	3,488	3,160
IAS 39 – Quoted investments	(a)	25	36	18	33
IAS 39 – Fair valuation of derivatives	(b)	(26)	(27)	(12)	(4)
IAS 39 – Convertible bonds	(c)	7	2	7	2
IAS 10 – Dividends payable	(h)	56	53	56	53
IAS 27 – Consolidation of limited partnerships and own shares	(i)			69	56
Total equity under IFRS		3,699	3,294	3,626	3,300

	Note	Group 2005 £m
Change in cash under UK GAAP		68
IAS 7 – Short-term deposits	(j)	40
Change in cash and cash equivalents under IFRS		108

Notes

(a) Under IFRS, quoted investment assets are valued at bid price. Under UK GAAP, these had been valued at mid-market price with discounts applied for illiquidity.

(b) 3i uses derivatives in the form of swap and forward exchange contracts to manage exposures to interest rates and currency. Under IFRS, these are held at fair value whereas they were held at cost under UK GAAP.

(c) Under UK GAAP, the Convertible Bonds which were issued on 1 August 2003 were held at the face value of the bonds (€550 million). Under IFRS, the derivative element of the bonds is held at fair value. The liability is held at amortised cost.

(d) Under UK GAAP, the approach in respect of share-based payments was to record a charge in profit or loss based on the intrinsic value of awarded shares at the grant date, with the charge being spread over the performance period. IFRS 2 requires the fair value of the equity instruments issued to be recognised in profit and loss over the vesting period of the instrument. The cost is calculated using option pricing methods and applies to all options granted after 7 November 2002 and not vested by 1 January 2005.

(e) Under IFRS, revenue items will be held at the rates in force at the time of the transaction. Exchange differences on the retranslation on consolidation of the opening net investment in foreign entities and the retranslation of profit or loss items to closing rate are recorded as movements on reserves.

38 Reconciliations of UK GAAP to IFRS for comparative periods (continued)

(f) Under IFRS, unrealised profits or losses on the revaluation of properties in use by the Group are taken directly to equity and do not appear in the income statement.

(g) Under IFRS, the actuarial gain or loss on retirement benefit obligations is taken directly to equity and does not appear in the income statement.

(h) Under IFRS, dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

(i) Under UK GAAP, investment in limited partnerships were treated as an intrinsic part of the Parent Company. Under IFRS it is more appropriate to show these investments as subsidiaries. The 3i Group Employee Trust is now treated as a separate entity rather than an intrinsic part of the Company. The limited partnerships and the Trust form part of the Group consolidation.

(j) Under IFRS, short-term deposits are classified as cash equivalents whereas they were included in liquid resources under UK GAAP. The move from UK GAAP does not significantly change any of the cash flows of the Group.

39 Directors' share interests

The interests of the Directors (all of which are beneficial) in the ordinary shares of the Company as stated in the register of directors' interests are shown below. Share interests stated before the Company's share consolidation on 11 July 2005 relate to ordinary shares of 50p each while those stated after that date relate to ordinary shares of 53⅛p each.

	31 March 2006 (or date of cessation if earlier)	31 March 2005	**31 March 2006 (or date of cessation if earlier) conditional***	31 March 2005 conditional*
Baroness Hogg	**18,686**	17,355	**–**	–
P Mihatsch	**–**	–	**–**	–
C J M Morin-Postel	**1,872**	2,000	**–**	–
F D Rosenkranz	**28,238**	30,000	**–**	–
R H Smith	**3,952**	4,200	**–**	–
F G Steingraber	**–**	–	**–**	–
O H J Stocken	**20,026**	12,825	**–**	–
P E Yea	**379,460**	281,611	**–**	–
S P Ball	**30,422**	–	**–**	–
R W Perry (until 6 July 2005)	**92,366**	87,488	**9,419**	16,206
M J Queen	**327,697**	319,191	**–**	8,144

*Represents conditional rights to acquire shares arising from deferred share bonus awards granted under the Management Equity Investment Plan, described on page 58.

The share interests shown above for each of Mr S P Ball, 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 56.

In addition to the interests shown above, the executive Directors also have beneficial interests in the conditional rights to acquire shares arising from performance linked awards granted under the Management Equity Investment Plan, which are detailed in the table on page 58. 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 12,496,297 shares as at 1 April 2005, 12,252,014 shares as at 6 July 2005 and 11,311,280 shares as at 31 March 2006. 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 Directors' remuneration report on page 55.

In the period from 1 April 2006 to 3 May 2006 the undermentioned Directors became beneficially interested in the following number of additional shares: Mr P E Yea (42 shares), Mr S P Ball (39 shares) and Mr M J Queen (42 shares). In addition, as at that date, the number of shares held by the 3i Group Employee Trust was 11,311,280.

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" endorsed by both the 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 bid price at the reporting date. In accordance with International Financial Reporting Standards, no discount is applied for liquidity of the stock or any dealing restrictions.

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. 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 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 93 and 94.

Ten largest investments[1]

Investment	Business line	Geography	First invested in	Residual cost[2] £m	Proportion of equity shares held	Directors' valuation[2] £m	Income in the year[3] £m	Net assets[4] £m	Earnings[4] £m
SR Technics Holding	Buyouts	Switzerland	2002						
Technical solutions provider for commercial aircraft fleets									
Equity shares				7	32.2%	70	–		
Loans				30		30	3		
				37		**100**	**3**	**14**	**(1)**
Parking International Holdings Limited (NCP)	Buyouts	UK	2005						
Transport management and parking services									
Equity shares				1	39.9%	1	–		
Loans				95		95	12		
				96		**96**	**12**	**(23)**	**(9)**
Giochi Preziosi Spa	Buyouts	Italy	2005						
Retailer and wholesaler of toys									
Equity shares				63	37.8%	64	–		
				63		**64**	**–**	**77**	**13**
Boxer TV-Access AB	Growth	Sweden	2005						
Digital TV distributor									
Equity shares				58	30.0%	60	–		
				58		**60**	**–**	**14**	**8**
Infrastructure Investors[5]	Growth	UK	2005						
Secondary PFI and Infrastructure investment fund									
Equity shares				–	31.2%	–	–		
Loans				59		59	–		
				59		**59**	**–**	**208**	**23**
Vetco International Ltd[6]	Buyouts	UK	2004						
Oilfield equipment manufacturer									
Equity shares				–	17.7%	53	–		
				–		**53**	**–**	**(67)**	**(49)**
Tato Holdings Ltd	SMI	UK	1989						
Manufacture and sale of specialist chemicals									
Equity shares				2	25.2%	53	–		
				2		**53**	**–**	**89**	**13**
Coor Service Management AB	Buyouts	Sweden	2004						
Facilities management									
Equity shares				1	37.5%	26	–		
Loans				26		26	2		
				27		**52**	**2**	**2**	**2**
Senoble Holding SAS	Growth	France	2004						
Manufacturer of dairy products and chilled desserts									
Equity shares				9	10.0%	27	–		
Loans				18		19	1		
				27		**46**	**1**	**88**	**18**

Notes

1 The valuation of Vonage Holdings Corp., a US Venture Capital investment made in 2004, has been excluded as the company has commenced an IPO process in the US. If it had been disclosed, the investment would have been among the largest five investments shown above.
2 The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.
3 Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2006.
4 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 the 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.
5 The investment by 3i is into three Infrastructure Investors' entities, a limited partner in the fund, a general partner in the fund and a management company and as well as the loan shown, has a cost of £3,177 for partnership capital. The net assets and earnings figures for this investment are for the LP and are unaudited.
6 The cost of the equity held in Vetco International Ltd is £423,367.

Forty other large investments

In addition to the ten largest investments shown on page 90, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £19 million. This does not include 3 investments that have been excluded for commercial reasons.

Investment	Description of Business	Business line	Geography	First invested	Residual Cost[1] £m	Directors' Valuation[1] £m
Renta Corporacion Real Estate, SA	Real estate purchase, refurbishment and sale	Growth	Spain	2004	14	42
Vextia (Poliris)	Online real estate listing and services	Growth	France	2005	41	41
Financiere Keos SA (Keolis)	Transport operator	Buyouts	France	2004	20	41
CSR plc[2]	Semiconductors/wireless single chip solutions	Venture	UK	1999	1	40
Care Principles TopCo Ltd	Specialist healthcare	Buyouts	UK	1997	39	39
La Sirena (Martifusgab)	Specialist frozen food retailers	Buyouts	Spain	2006	37	38
H-Careholding AB	Elderly, primary and specialist care	Buyouts	Sweden	2005	36	36
Hayley Conference Centres Ltd	Conference centres	Growth	UK	2005	35	35
DIAB Intressenter AB	Polymer based sandwich technology laminates	Growth	Sweden	2002	90	35
Extec Holdings Ltd	Manufacturer of screening and crushing machinery	Buyouts	UK	2002	6	33
Jung Pumpen GmbH	Waste water pump producer	Buyouts	Germany	2004	20	32
Progetto 26 Spa	Production of glass products	Growth	Italy	1997	16	31
Marken Ltd	International courier services	Buyouts	UK	2006	30	30
Grup Maritim TCB, SL	Operation of port concessions	Buyouts	Spain	1999	12	30
Smartstream Technologies Group Ltd	Software and services	Buyouts	UK	2000	29	29
Aviapartner Group SA	Airport ground handling	Buyouts	Netherlands	2005	28	28
Telecity plc[2]	Services for Internet service providers	Buyouts	UK	1998	17	28
Clinica Baviera	Eye laser surgery clinics	Growth	Spain	2005	27	28
Pharmadule Emtunga AB	Modular facilities to pharmaceuticals/biotech offshore and telecom sectors	Buyouts	Sweden	2003	40	27
Goromar XXI, SL	Manufacturer of frites and glazes for ceramic tiles	Buyouts	Spain	2002	18	27
Interhyp AG[2]	Online mortgage broker	Venture	Germany	2000	2	27
Nimbus Communications Ltd	Media and entertainment services	Growth	India	2005	26	26
Morse plc[2]	Technology integrator	Buyouts	UK	1995	8	25
HSS Hire Service Holdings Ltd	Tool hire	Buyouts	UK	2004	17	25
Refresco Holding BV	Fruit juice producer	Buyouts	Netherlands	2003	2	24
Sparrowhawk Media Limited	UK and International TV channel and business library	Buyouts	UK	2005	22	24
Target Express Ltd	Freight transport by road	Buyouts	UK	2000	43	23
International Tractors Ltd	Manufacturer of agricultural tractors	Growth	India	2006	22	22
Nordic Capital IV LP	Investment limited partnership	Growth	UK	2000	8	22
Vetoquinol SA	Development, manufacture and distribution of vet pharmaceuticals	Growth	France	2003	14	22
Alma Mater Fund	Investment in university student accommodation	Growth	UK	2003	21	21
Metropolitan Management BV (Polyconcept)	Supplier of promotional products	Growth	UK	2005	21	21
Nova Rodman, SL	Boat manufacturer	Growth	UK	2004	19	21
Management Consortium Bid	Container distribution by rail	Buyouts	UK	1997	8	21
MKM Building Supplies Ltd	Building materials suppliers	Growth	UK	1999	21	21
Hyva Investments BV	Branded hydraulics to commercial vehicles	Buyouts	Netherlands	2004	15	20
Malachite 1 Ltd (Buy as you view)	Coin meter based hire purchase	Buyouts	UK	2004	20	20
FocusMedia Holdings Ltd[2]	Services and utilities	Growth	China	2004	2	20
Alimak Hek AB	Construction of hoists and platforms	Growth	Sweden	2001	15	19
Groupe Vendome SA	Cosmetic and toiletry products	Buyouts	France	2001	5	19

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)	**2006**	2005	2004	2003	2002
Buyouts	**451**	338	282	221	139
Growth Capital	**497**	263	319	325	296
Venture Capital	**156**	143	156	170	399
SMI	**6**	11	27	–	–
Total	**1,110**	755	784	716	834

Investment by geography (£m)					
UK	**409**	334	309	318	377
Continental Europe	**540**	341	401	304	312
US	**70**	51	61	74	119
Asia	**91**	29	13	20	26
Total	**1,110**	755	784	716	834

Continental European investment (£m)					
Benelux	**62**	17	52	35	36
France	**88**	73	65	30	50
Germany/Austria/Switzerland	**76**	92	141	104	121
Italy	**65**	20	14	24	11
Nordic	**126**	81	87	62	65
Spain	**94**	41	23	43	25
Other European*	**29**	17	19	6	4
Total	**540**	341	401	304	312

*Other European includes investments in countries where 3i did not have an office at 31 March 2006.

Investment by FTSE industrial classification (£m)[1]					
Resources	**17**	68	9	12	14
Industrials	**208**	163	146	230	88
Consumer goods	**235**	155	260	163	155
Services and utilities	**481**	234	228	134	252
Financials	**84**	59	28	48	23
Information technology	**85**	76	113	129	302
Total	**1,110**	755	784	716	834

First and subsequent investment (£m)					
First investment in new investee companies	**755**	488	534	433	430
Drawdown on existing arrangements for first investments	**12**	10	17	48	73
Investment by 3i in external funds	**111**	26	3	6	7
Newly arranged further investment in existing portfolio companies	**162**	167	176	163	216
Other – including capitalised interest	**70**	64	54	66	108
Total	**1,110**	755	784	716	834

Note

1 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data has not been restated.

Portfolio analysis

The Group's equity, fixed income and loan investments total £4,139 million at 31 March 2006.

Portfolio value by business line (£m)	**2006**	2005[1]	2004[1]	2003	2002
Buyouts	**1,465**	1,521	1,487	1,197	1,152
Growth Capital	**1,284**	1,292	1,233	2,000	2,647
Venture Capital	**826**	748	682	742	1,310
SMI	**564**	756	960	–	–
Total	**4,139**	4,317	4,362	3,939	5,109

Portfolio value by geography (£m)					
UK	**1,740**	2,258	2,528	2,494	3,386
Continental Europe	**1,925**	1,693	1,516	1,175	1,373
US	**307**	277	243	180	264
Asia	**167**	89	75	90	86
Total	**4,139**	4,317	4,362	3,939	5,109

Continental European portfolio value (£m)					
Benelux	**124**	180	181	101	78
France	**344**	292	234	186	253
Germany/Austria/Switzerland	**489**	503	459	319	385
Italy	**142**	69	53	69	103
Nordic	**394**	344	332	273	304
Spain	**342**	249	224	211	222
Other European*	**90**	56	33	16	28
Total	**1,925**	1,693	1,516	1,175	1,373

*Other European includes investments in countries where 3i did not have an office at 31 March 2006.

Portfolio value by FTSE industrial classification (£m)[2]					
Resources	**145**	162	159	186	268
Industrials	**1,040**	1,077	1,019	944	1,117
Consumer goods	**841**	969	1,030	873	1,080
Services and utilities	**1,173**	1,214	1,278	1,018	1,318
Financials	**379**	326	247	274	273
Information technology	**561**	569	629	644	1,053
Total	**4,139**	4,317	4,362	3,939	5,109

Portfolio value by valuation method (£m)					
Imminent sale or IPO	**290**	373	174	37	51
Listed	**197**	198	259	187	413
Secondary market	**62**	37	31	30	89
Earnings	**1,021**	1,138	1,347	938	1,210
Cost	**621**	468	509	607	1,077
Further advance	**116**	203	149	155	186
Net assets	**95**	92	103	139	132
Other (including other Venture Capital assets valued below cost)	**371**	408	328	282	219
Loan investments and fixed income shares	**1,366**	1,400	1,462	1,564	1,732
Total	**4,139**	4,317	4,362	3,939	5,109

Notes

1 2004 and 2005 have been restated for IFRS.

2 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data has not been restated.

Buyout portfolio value by valuation method (£m)	**2006**	2005[1]	2004[1]	2003	2002
Imminent sale or IPO	**92**	134	59	–	–
Listed	**25**	48	86	46	93
Secondary market	**1**	1	1	6	12
Earnings	**410**	372	472	245	204
Cost	**105**	71	58	93	64
Net assets	**–**	4	2	7	9
Other	**38**	22	20	32	14
Loan investments and fixed income shares	**794**	869	789	768	756
Total	**1,465**	1,521	1,487	1,197	1,152

Growth Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**112**	120	49	23	42
Listed	**31**	62	78	102	177
Secondary market	**27**	9	7	6	13
Earnings	**294**	360	350	658	967
Cost	**257**	159	171	230	284
Further advance	**8**	14	15	14	24
Net assets	**29**	33	39	131	115
Other	**89**	200	145	135	155
Loan investments and fixed income shares	**437**	335	379	701	870
Total	**1,284**	1,292	1,233	2,000	2,647

Venture Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**33**	33	36	14	9
Listed	**128**	72	71	39	143
Secondary market	**31**	22	20	18	64
Earnings	**10**	25	–	35	39
Cost	**248**	221	257	284	729
Further advance	**104**	186	119	141	162
Net assets	**6**	1	1	1	8
Other Venture Capital assets valued below cost	**71**	71	51	79	23
Other	**132**	55	66	36	27
Loan investments and fixed income shares	**63**	62	61	95	106
Total	**826**	748	682	742	1,310
– of which early stage Venture Capital	**629**	561	456	589	1,042

SMI portfolio value by valuation method (£m)					
Imminent sale or IPO	**53**	86	30	–	–
Listed	**13**	16	24	–	–
Secondary market	**3**	5	3	–	–
Earnings	**307**	381	525	–	–
Cost	**11**	17	23	–	–
Further advance	**4**	3	15	–	–
Net assets	**60**	54	61	–	–
Other	**41**	60	46	–	–
Loan investment and fixed income shares	**72**	134	233	–	–
Total	**564**	756	960	–	–

Venture Capital portfolio value by sector (£m)					
Healthcare	**290**	228	232	253	400
Communications	**178**	189	171	151	242
Electronics, semiconductors and advanced technologies	**147**	141	106	107	186
Software	**211**	190	173	231	482
Total	**826**	748	682	742	1,310

Note

1 2004 and 2005 have been restated for IFRS.

Realisations analysis

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

Realisations proceeds by business line (£m)	**2006**	2005	2004	2003	2002
Buyouts	**877**	505	205	345	138
Growth Capital	**855**	443	391	538	540
Venture Capital	**207**	156	91	93	261
SMI	**268**	198	236	–	–
Total	**2,207**	1,302	923	976	939

Realisations proceeds by geography (£m)					
UK	**1,173**	897	608	727	794
Continental Europe	**891**	365	245	238	133
US	**76**	34	10	2	10
Asia	**67**	6	60	9	2
Total	**2,207**	1,302	923	976	939

Realisations proceeds (£m)					
IPO	**229**	41	7	37	55
Sale of quoted investments	**143**	134	118	110	370
Trade and other sales	**1,271**	744	532	493	303
Loan and fixed income share repayments	**564**	383	266	336	211
Total	**2,207**	1,302	923	976	939

Realisations proceeds by FTSE industrial classification (£m)[1]					
Resources	**132**	105	14	60	52
Industrials	**418**	142	216	294	193
Consumer goods	**529**	394	167	192	255
Services and utilities	**739**	457	352	330	288
Financials	**225**	29	80	42	18
Information technology	**164**	175	94	58	133
Total	**2,207**	1,302	923	976	939

Note

1 In January 2006 there was a reclassification of industry sectors by the FTSE. Comparative data has not been restated.

Portfolio and investment analysis including co-investment funds

Investment by business line (£m)	**2006**	2005	2004	2003	2002
Buyouts	**655**	532	438	376	229
Growth Capital	**503**	274	349	379	390
Venture Capital	**156**	144	161	176	420
SMI	**8**	12	31	–	–
Total	**1,322**	962	979	931	1,039

Investment by geography (£m)					
UK	**502**	440	375	399	443
Continental Europe	**654**	433	526	436	446
US	**70**	51	61	74	119
Asia	**96**	38	17	22	31
Total	**1,322**	962	979	931	1,039

Portfolio value by business line (£m)[1]					
Buyouts	**2,330**	2,521	2,472	1,998	1,920
Growth Capital	**1,422**	1,474	1,459	2,301	3,059
Venture Capital	**834**	747	708	798	1,394
SMI	**616**	813	1,048	–	–
Total	**5,202**	5,555	5,687	5,097	6,373

Portfolio value by geography (£m)[1]					
UK	**2,124**	2,742	3,046	3,041	4,018
Continental Europe	**2,583**	2,428	2,305	1,773	1,984
US	**307**	283	250	182	270
Asia	**188**	102	86	101	101
Total	**5,202**	5,555	5,687	5,097	6,373

Note
1 The portfolio values for 2004 and 2005 have been restated for IFRS.

Funds under management

(£m)	**2006**	2005	2004	2003	2002
Third party unquoted co-investment funds	**1,573**	1,913	1,875	1,587	1,995
Quoted investment companies and 3i Group Pension Plan	**–**	–	600	452	761
Total	**1,573**	1,913	2,475	2,039	2,756

Private equity and venture capital – a lexicon

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

- **Venture capital investment** – this is investment in start-up and early or late stage technology businesses. These businesses are 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 private equity investor ("PE investor") taking a minority equity position. It is a type of investment 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 a 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 PE investor, with the PE investor 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 PE investor and a relatively small amount coming from the management team. In order to reflect the mismatch between the equity finance provided respectively by the PE investor and the management team and the equity stake taken by each in the underlying business, a large part of the PE investor'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 PE investor 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 PE investor will usually prefer to crystallise its capital gain through a trade sale (ie a sale to a corporate purchaser), a sale to a financial purchaser or a 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 PE investor'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 PE investor. 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 PE investor 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 PE investor, 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, for example, a bank or investment bank, insurance company, university). 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 PE investor 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.
- **Developments in information technology and life sciences** – these act as engines for early stage investment, 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.

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 25% for Venture Capital

How does 3i's total return equate to the IRR measures?
Table 1 on page 16 shows an analysis of 3i's total return.

Total return is calculated as the gross portfolio return plus other fee income, less costs and net interest payable. Total return can be expressed as a quantum (eg £831 million for the year to 31 March 2006) or as a percentage of opening shareholders' funds (eg 22.5% for the year to 31 March 2006).

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.

In the business line IRR tables included in the Business review, total investment represents all first and further investment in a vintage and investment in externally managed funds, while return flow consists of capital proceeds and revenue. Value remaining represents the value still held within the vintage's portfolio based on our latest valuation.

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 2006 covers new investments made from 1 April 2005 to 31 March 2006.

Why does 3i track the performance of vintage years? Looking at the performance of a vintage enables us to assess 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 and end of the year. 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 25% for Venture Capital.

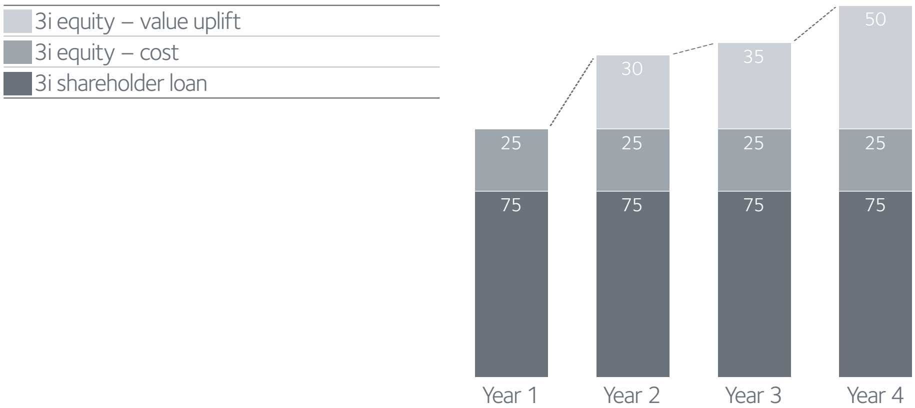
A Cash-to-cash IRR cannot be meaningfully used to measure the performance of a vintage until the majority of assets in that vintage are realised. Therefore, 3i monitors the progress of each vintage and the evolution of the IRR using a combination of the Fund IRRs and the extent to which a vintage is 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 +/-15% for Venture Capital.

Across the cycle, we expect the volatility to average out at +/-5% for Buyouts, +/-3% for Growth Capital and +/-7% 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				
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”.

We have published the Fund IRRs for each business line within the Business review (Buyouts on page 23, Growth Capital on page 27 and Venture Capital on page 31) for the last five vintages (2002 to 2006).

Information for shareholders

Financial calendar

Ex-dividend date	21 June 2006
Record date	23 June 2006
Annual General Meeting	12 July 2006
Final dividend to be paid	21 July 2006
Interim results	November 2006
Interim dividend expected to be paid	January 2007

Shareholder profile Location of investors at 31 March 2006

UK (including retail shareholders)	78.8%
Continental Europe	9.4%
US	10.0%
Other international	1.8%

Share price

Share price at 31 March 2006	940.5p
High during the year (22 February 2006)	970.5p
Low during the year (28 April 2005)	635.5p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2006	%
1 – 1,000	23,984	1,739	12,544,775	2.28
1,001 – 10,000	5,633	1,317	15,250,303	2.77
10,001 – 100,000	140	475	22,076,899	4.01
100,001 – 1,000,000	20	318	112,175,551	20.37
1,000,001 – 10,000,000	0	87	215,473,301	39.14
10,000,001 – highest	0	11	173,035,673	31.43
Total	29,777	3,947	550,556,502	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 2006.

Investor relations and general enquiries

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

If you would prefer to receive shareholder communications electronically in future, including the Report and accounts, please go to www.3igroup.com/e-comms to register your details.

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Registered office:
16 Palace Street, London SW1E 5JD, UK

Registered in England No. 1142830

An investment company as defined by section 266 of the Companies Act 1985.

Designed and produced by Radley Yeldar (London). Printed by CTD Printers Limited.

This document is printed on paper which uses virgin wood fibre from sawmill residues, forest thinnings and sustainable forests in Austria. The majority of the pulps used are totally chlorine free. The paper is fully recyclable and biodegradable.

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M1406 May 2006