



## 3i Group plc Interim report 2005



# Financial highlights

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

## Return on opening shareholders' funds

# 12.1%

## Realisation proceeds

# £1,041m

## Total return\*

# £447m

## Dividend per share

# 5.5p

	6 months to 30 September 2005	6 months to 30 September 2004 (as restated)**
Total return on opening shareholders' funds	<b>12.1%</b>	6.8%
Diluted net asset value per share	<b>677p</b>	574p
Interim dividend per share	<b>5.5p</b>	5.3p
Realised profits over opening valuation on disposal of investments	<b>£189m</b>	£89m
New investment – Including co-investment funds	<b>£706m</b> <b>£835m</b>	£422m £521m
Realisation proceeds – Including co-investment funds	<b>£1,041m</b> <b>£1,363m</b>	£603m £792m

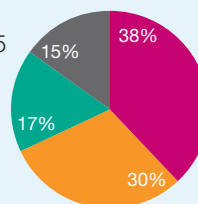
\* Total return is equivalent to the accounting measure of "Total recognised income and expense".

\*\*Restated comparatives reflect the adoption of International Financial Reporting Standards ("IFRS"), as explained within the Basis of preparation on page 18.

	6 months to 30 September 2005	6 months to 30 September 2004 (as restated)**
<b>Gross portfolio return (%)</b>		
Buyouts	<b>13.1</b>	9.8
Growth Capital	<b>13.0</b>	7.7
Venture Capital	<b>8.2</b>	3.4
Smaller Minority Investments ("SMI")	<b>12.3</b>	4.2

## Portfolio by value (£m) as at 30 September 2005

Buyouts	1,665
Growth Capital	1,321
Venture Capital	740
SMI	663
<b>Total</b>	<b>4,389</b>



# Chairman's statement



“Further good progress”

3i achieved further good progress in the first half of this financial year, with investment and realisations both above last year's levels. The total return in the six months to 30 September was £447 million, amounting to 12.1% of opening shareholders' funds. This compares with a return of £224 million, or 6.8%, in the first half of the last financial year, and £501 million, or 15.2%, in the full year to 31 March 2005. Our Buyout and Growth Capital teams both achieved returns above our targets, and there was a further improvement in the return from our Venture Capital business.

During the period, we executed the return of capital approved by shareholders in July. As well as our normal final dividend of 9.3p per share, we made a special dividend payment of 40.7p per share, followed by a share consolidation, and have been actively repurchasing shares in the market. At 9 November we had repurchased nearly £200 million, some 79% of our target. The Directors have now announced an interim dividend of 5.5p per share.

We benefited in this period from a marked increase in carried interest receivable on the European funds we manage. In addition, the revival in equity markets over the period improved the overall value of our assets; while the strength of the financing markets enabled our Buyout and Growth Capital teams to realise investments at excellent rates of return. It also helped the team managing our large portfolio of smaller minority investments to make significant progress in reducing the number of these, with a pleasing increase in the rate of return. Moreover, the Venture Capital team succeeded in more than doubling its level of realisations with some notable uplifts in value. In total, we realised £1,041 million compared with £603 million in the first half of last year.

There was also a significant increase in the level of investment, to a total of £706 million in the six months compared with £422 million in the same period last year. 3i's international network enables us to identify opportunities that meet our exacting standards even in these markets. Our Growth Capital team's focus on larger investments helped them to double their level of investment compared with the first half of last year.

These six months also saw progress in the execution of the strategy that our Chief Executive, Philip Yea, laid out to shareholders in the spring. We continued to build capabilities in Asia, forming our team in India and opening our office in Shanghai. In Europe, our Infrastructure team is now up and running. These developments have been accelerated by the attraction of new talent to work within our experienced and successful teams.

As 3i's activities have become more international, so our ability to combine global industry knowledge with specialised investment expertise and local understanding has increased. Our diversity and flexibility will be of particular advantage when the outlook for output, inflation and interest rates is uncertain. The strength of our balance sheet, the breadth of our portfolio and the quality of our people enable us to combine scale with agility and ambition with rigour, in fast-changing markets.

A handwritten signature in blue ink that reads "Sarah Hogg".

Baroness Hogg  
Chairman  
9 November 2005

# Our business lines

## Buyouts

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

Gross portfolio return

13%

Portfolio value

£1,665m

Financial highlights (£m)  
for 6 months to 30 September 2005

Gross portfolio return	199
Investment	358
Realisation proceeds	379
Realised profits	62
Unrealised value movement	79
Portfolio income	58

## Growth Capital

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

Gross portfolio return

13%

Portfolio value

£1,321m

Financial highlights (£m)  
for 6 months to 30 September 2005

Gross portfolio return	168
Investment	286
Realisation proceeds	381
Realised profits	60
Unrealised value movement	86
Portfolio income	22

## Venture Capital

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

Gross portfolio return

8%

Portfolio value

£740m

Financial highlights (£m)  
for 6 months to 30 September 2005

Gross portfolio return	61
Investment	58
Realisation proceeds	120
Realised profits	36
Unrealised value movement	23
Portfolio income	2

## Group financial highlights (£m) 6 months to 30 September 2005

	Total	Buyouts	Growth Capital	Venture Capital	SMI
Gross portfolio return	521	199	168	61	93
Investment	706	358	286	58	4
Realisation proceeds	1,041	379	381	120	161
Realised profits over opening valuation	189	62	60	36	31
Unrealised value movement	223	79	86	23	35
Portfolio income	109	58	22	27	2

# Chief Executive's statement



## “Strong all-round performance”

In my last report to you in May this year, I wrote that I intended to report further good progress towards our performance and strategic goals.

The figures reported for the first six months of this year show a strong all-round performance. Our gross portfolio return of £521 million represents 12.1% on opening portfolio value and is at the top of the range of our long-term targets. Buyouts and Growth Capital achieved returns of 13% each. Our Venture Capital business delivered further progress at 8% and SMI generated a strong return of 12% over the period.

Our total return of 12.1% on opening shareholders' funds compares with 6.8% for the equivalent period a year ago, helped by the performance of the Eurofund III buyout fund, which has now moved to a position where we can recognise carried interest receivable on funds we manage.

In very buoyant financing markets, our Buyout business has been both a disciplined investor and an active seller. Realisations totalled £379 million (2004: £218 million). Investment, 57% of which was in continental Europe, was £358 million (2004: £200 million). Recent investments, which illustrate the breadth of our pan-European Buyout business, include: Giochi Preziosi, a leading Italian manufacturer and distributor of toys; Aviapartner, a Belgian airline ground handling business; and Wendt, a leading German manufacturer of precision tools.

Our Growth Capital business benefited from a strong investment pipeline at the start of

## 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.

the period, but aggregate investment levels at £286 million (2004: £143 million) also reflect the strategic changes being implemented within the business, as it increasingly focuses on larger individual investments. We invested £46 million in I<sup>2</sup>, as part of a £158 million commitment to this UK infrastructure fund. We also made our first growth capital investment in India, providing £26 million to Nimbus, a media and entertainment services company. The level of realisations was also strong, including Mölnlycke Health Care and Revus Energy, which delivered some excellent realised profits.

Our Venture Capital business was focused on realisations to deliver cash returns. Consequently, investment of £58 million (2004: £72 million) was substantially exceeded by the level of realisations of £120 million (2004: £58 million).

3i's SMI team, which is responsible for managing the disposal of our smaller minority investments, delivered an excellent performance, generating £161 million of cash proceeds from 131 portfolio companies.

The consequence of these individual business line performances is that we had a strong level of investment overall of £706 million (2004: £422 million), with an excellent level of realisations of £1,041 million (2004: £603 million). As a result, despite returning £396 million of cash to shareholders, our gearing at the end of the period was 20%.

As these figures demonstrate, we have a clear investment model for today and a strong determination to continue to deliver returns through the economic cycle and as we grow in new areas in the future.

It is increasingly important to build 3i's differentiation through the ways in which we share information and relationships across the areas in which we operate. We are making excellent progress in achieving this both across geographies and business lines and, in particular, in integrating our newer teams into our world-wide network. In addition, we are actively exploring the opportunity to invest in growth equity situations within the US as a way of further building value for our shareholders.

The following report shows further good evidence of progress on our agenda of delivering the present while building for the future.

We have made a good start to the second half, in terms of both new investments and realisations. Although the pipeline of potential new investments is not as strong as six months earlier, we continue to originate attractive opportunities across our business lines. Favourable exit conditions seem set to continue over the near term and should enable us to realise well in the second half, although perhaps not at the exceptional levels we achieved in the first half.

A handwritten signature in blue ink, appearing to read 'Philip Yea'.

Philip Yea  
Chief Executive  
9 November 2005



# Interim review

Table 1: Total return

	6 months to 30 September 2005 £m	6 months to 30 September 2004 (as restated)* £m
Realised profits on disposal of investments	189	89
Unrealised profits on revaluation of investments	223	86
Portfolio income	109	126
Gross portfolio return	521	301
Fund management fee income	15	14
Net carried interest and investment performance plans	31	(24)
Operating expenses and share-based payments	(96)	(83)
Net portfolio return	471	208
Net interest payable	(12)	(25)
Exchange movements	35	32
Movements in the fair value of derivatives	(33)	9
Other	1	(1)
Profit after tax	462	223
Revaluation movements (pension, property and currency translation)	(15)	1
Total recognised income and expense ("Total return")	447	224

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

Table 2: Return by business line (£m)  
6 months to 30 September

	Buyouts		Growth Capital		Venture Capital		SMI		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004 (as restated)*
Gross portfolio return	199	145	168	93	61	23	93	40	521	301
Return as % of opening portfolio	13.1%	9.8%	13.0%	7.7%	8.2%	3.4%	12.3%	4.2%	12.1%	6.9%
Net portfolio return									471	208
Return as % of opening portfolio									10.9%	4.8%
Total return									447	224
Total return as % of opening shareholders' funds									12.1%	6.8%

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

## Group overview

As shown in table 1, 3i achieved a total return of £447 million (2004: £224 million) for the period, which equates to 12.1% on restated opening shareholders' funds. Total return is equivalent to the IFRS accounting measure of "total recognised income and expense" used in the financial statements.

The gross portfolio return for the period was 12.1% (2004: 6.9%) on the opening portfolio value, reflecting the high level of realisations achieved at good uplifts to carrying value and continued value growth within the portfolio. An analysis of the gross portfolio return by business line is shown in table 2.

The net portfolio return on the opening portfolio value, after deduction of operating expenses and carried interest payable to our investment teams, and inclusion of carried interest and management fees receivable in respect of our third party funds, was 10.9% (2004: 4.8%).

3i invested a total of £706 million (£835 million including investment on behalf of co-investment funds), which is significantly up on levels invested in both the first half (£422 million) and the second half (£333 million) of the last financial year. An analysis of the amount invested, by business line and geography, is given in table 4. As previously indicated, the investment pipeline coming into the current financial year was strong and we were able to convert much of this during the period. In addition, particularly within Growth Capital, we have been targeting significantly larger investment opportunities and our average deal size during the period increased.

3i generated realisation proceeds of £1,041 million (2004: £603 million) during the period, reflecting a profit over 31 March 2005 values of £189 million (22% uplift), compared with £89 million (17%) in the equivalent period last year. The uplift over 31 March 2005 values on realisations of equity investments was 34% (2004: 28%). Realised profits are stated net of write-offs, which amounted to £40 million (2004: £13 million). Overall, 19.7% of the opening portfolio (by value) was realised during the period (2004: 12%), which is significantly higher than we have achieved in any six month period over recent years. An analysis of realisation proceeds by business line and geography is provided in table 5 and a summary of changes to our portfolio in table 3.

Table 3: Summary of changes to investment portfolio

	6 months to 30 September 2005 £m	6 months to 30 September 2004 (as restated)* £m
Opening portfolio	4,317	4,362
Investment	706	422
Realisation proceeds	(1,041)	(603)
Realised profits on disposal of investments	189	90
Unrealised profits on revaluation of investments	223	86
Other	(5)	40
<b>Closing portfolio</b>	<b>4,389</b>	<b>4,397</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

Table 4: Investment by business line and geography (£m)  
6 months to 30 September

	UK		Continental Europe		US		Asia		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Buyouts	154	82	204	118	–	–	–	–	358	200
Growth Capital	109	45	141	85	–	1	36	12	286	143
Venture Capital	18	20	12	17	28	34	–	1	58	72
SMI	2	5	2	2	–	–	–	–	4	7
<b>Total</b>	<b>283</b>	<b>152</b>	<b>359</b>	<b>222</b>	<b>28</b>	<b>35</b>	<b>36</b>	<b>13</b>	<b>706</b>	<b>422</b>

Table 5: Realisation proceeds by business line and geography (£m)  
6 months to 30 September

	UK		Continental Europe		US		Asia		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Buyouts	178	141	201	75	–	2	–	–	379	218
Growth Capital	135	203	169	41	42	–	35	1	381	245
Venture Capital	56	46	49	6	15	6	–	–	120	58
SMI	135	55	26	26	–	1	–	–	161	82
<b>Total</b>	<b>504</b>	<b>445</b>	<b>445</b>	<b>148</b>	<b>57</b>	<b>9</b>	<b>35</b>	<b>1</b>	<b>1,041</b>	<b>603</b>

During the period, eight portfolio companies achieved IPOs across seven different markets, including Revus Energy (Oslo), Interhyp (Frankfurt) and Focus Media (NASDAQ). Sales to financial purchasers through secondary buyouts represented £317 million of proceeds and we generated £66 million of proceeds through refinancing portfolio businesses. Sales of quoted equities benefited from the general rise in equity markets, with proceeds of £117 million and a profit of £30 million (34%) over 31 March 2005 valuations.

### Buyouts

The European mid-market for buyouts continued to be highly competitive in terms of investment opportunities, reflecting the substantial amounts raised recently by buyout funds and the continuing high availability of debt. Despite this, we believe we have been able to secure some good opportunities at attractive prices. During the period, we invested £304 million in 10 transactions and a further £54 million in supporting existing portfolio companies. Investments made include NCP, the UK-based provider of transport management and parking services, Giochi Preziosi, the Italian toy manufacturer, and Carema, the Swedish specialist care business.

Realisation conditions were favourable during the period, with strong competition among both corporate and financial buyers of businesses, more active IPO markets and supportive debt markets. These conditions enabled us to generate £379 million in proceeds at an aggregate uplift over 31 March 2005 carrying values of £62 million (20%). Major contributors were Yellow Brick Road, the telephone directories group, on which we generated a further £129 million of proceeds, and Travellex, the foreign currency services provider, where we realised a further £93 million of proceeds in the period.

In addition, the Buyout business generated realisation proceeds of £284 million on behalf of third party funds managed by 3i.

Unrealised value movement was £79 million (2004: £76 million), driven mainly by assets being valued on an imminent sale basis, earnings multiple enhancements and a number of first time uplifts (valuation increases due to assets being valued on a basis other than cost for the first time). Portfolio income totalled £58 million (2004: £47 million).

Table 6: Unrealised profits/(losses) on revaluation of investments

	6 months to 30 September 2005 £m	6 months to 30 September (as restated)* 2004 £m
Earnings multiples <sup>1</sup>	66	18
Earnings <sup>2</sup>	27	22
First-time uplifts <sup>3</sup>	23	32
Provisions <sup>4</sup>	(37)	(44)
Up/(down) rounds	(3)	21
Uplift to imminent sale	128	85
Other movements on unquoted investments	(39)	(42)
Quoted portfolio	58	(6)
<b>Total</b>	<b>223</b>	<b>86</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

1 The weighted average earnings multiple applied to investments valued on an earnings basis increased from 12.0 to 12.2 over the period. For those investments valued on an earnings basis at both the start and end of the period, the weighted average earnings multiple increased from 11.9 to 12.3.

2 The aggregate attributable earnings of investments valued on an earnings basis at both the start and end of the period increased by 2%.

3 The net valuation impact arising on investments being valued on a basis other than cost for the first time.

4 Provisions against the carrying value of investments in businesses which may fail.

## Growth Capital

Within Growth Capital, we have been successful in originating a number of investment opportunities as businesses have sought to expand regionally and internationally. Investment was strong in the period, as we converted a number of opportunities within our pipeline and benefited from our focus on larger deals. We invested £286 million, comprising £203 million in 10 “first” investments (in which 3i had not previously invested), £37 million of “further” investment into existing portfolio companies and £46 million into the I<sup>2</sup> infrastructure fund, which targets projects in the health, education, transport and defence sectors in the UK. The average deal size for first investments was £27 million, up from £7 million for the previous financial year. Investments made include Boxer, the Stockholm-based digital TV operator, and Hayley, the UK-based operator of conference centres.

Growth Capital realisations were strong, generating £381 million of proceeds at an uplift over 31 March 2005 carrying values of £60 million (19%). This is net of realised value losses on Incline Global Technology Services, the UK-based repairer of flat panel

displays (£28 million), and Allsports, the UK sports goods retailer (£5 million), both of which went into administration during the period.

Unrealised value movement was £86 million (2004: £(3) million). This included £69 million in respect of Petrofac, the oilfield services business, which achieved a £742 million IPO on the London Stock Exchange in early October 2005, providing 3i with a full exit and proceeds of £116 million on our 2002 investment of £21 million. Portfolio income totalled £22 million (2004: £46 million), the reduction relative to 2004 being primarily due to reduced levels of special dividends receivable on realisations of investments.

## Venture Capital

Venture capital investment conditions in both Europe and the US were competitive for good later-stage investment opportunities, but much less so for start-up and early-stage opportunities. The relatively low amount invested (£58 million) reflects both our view of pricing levels for high-quality opportunities and our focus during the period on portfolio management and exits. Of the amount invested by Venture Capital, 84% was further investment into existing portfolio companies.

Realisation conditions were much improved, with both IPOs and sales to corporate acquirers becoming more prevalent. We generated proceeds of £120 million in the period, at an uplift over 31 March 2005 carrying values of £36 million (43%). Notable realisations were dtms, the German telecommunications solutions provider, UbiNetics, the “3G” mobile wireless software company, and Searchspace, the UK artificial intelligence software company.

Unrealised value movement was £23 million (2004: £12 million), the main contributors being valuation increases arising on the IPO of portfolio companies and rises in the share prices of quoted assets. Portfolio income totalled £2 million (2004: £1 million).

## SMI

SMI continued to be successful in realising assets from its portfolio. The gross portfolio return of 12% is largely attributable to a number of good realisations of higher value assets, including Cannon Avent, the baby products business, McMullen & Sons, the brewing and pubs business, and EAT, the operator of coffee and sandwich bars.

## Carried interest and investment performance plans

The charge for the period in respect of amounts payable to our investment staff under carried interest schemes and investment performance plans was £26 million (2004: £25 million).

Carried interest receivable for the period of £57 million (2004: £1 million) relates primarily to Eurofund III, 3i's 1999 pan-European fund, whose cumulative performance has now passed through the point at which recognition of carried interest receivable within 3i's financial statements is triggered. This resulted in a net carried interest receivable for the period of £31 million (2004: £24 million payable).

## Costs

Operating expenses totalled £92 million (2004: £80 million) in the period. The increase over 2004 reflects a number of factors, including higher remuneration costs and costs associated with the strategic development of the business. Staff headcount at the period end stood at 732 (2004: 740).



Chart A: Portfolio value by business line (£m) as at 30 September 2005

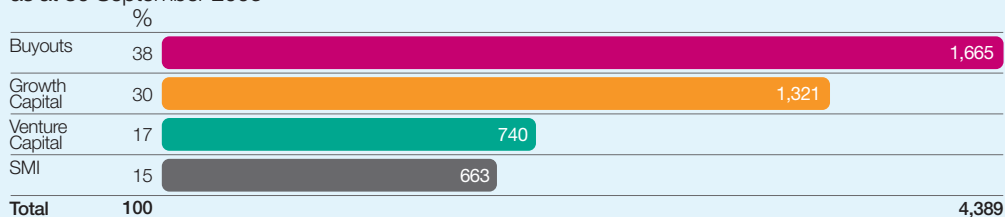


Chart B: Portfolio value by geography (£m) as at 30 September 2005

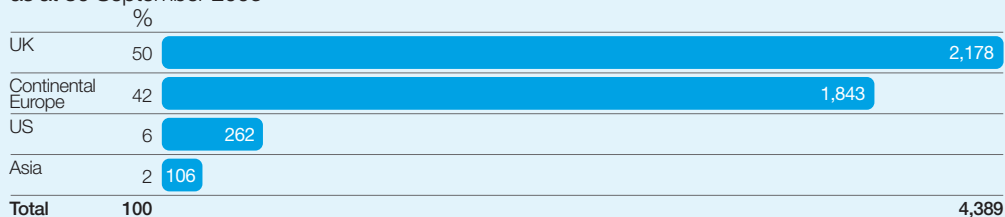
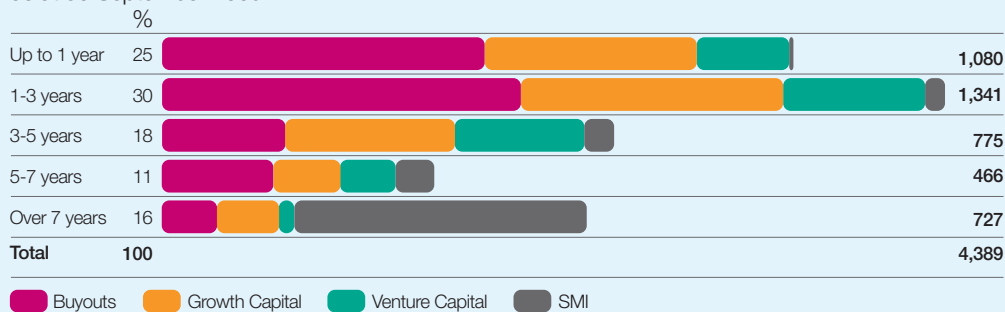


Chart C: Portfolio value by age (£m) as at 30 September 2005



The charge in respect of share-based payments, to reflect the fair value of options granted to employees, was £4 million (2004: £3 million).

Net interest payable for the period was £12 million (2004: £25 million), reflecting the lower average net borrowings compared to the equivalent period last year and an increase in the proportion of borrowings in non-sterling currencies for which interest rates are currently more favourable.

We incurred an unrealised value movement of £33 million (2004: gain of £4 million) as a result of marking derivatives to fair value. Of this, £14 million relates to the derivative element of the €550 million Convertible Bonds due 2008, where the increase in 3i's share price over the period was a significant factor.

### The portfolio

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

The number of investments in the portfolio (excluding SMI) fell from 695 at the start of the period to 609 at the end, reflecting the high level of realisations achieved.

The number of investments in the SMI portfolio fell from 807 at the start of the period to 676 at the end. Within this portfolio, the largest 20 investments by value represented 31% of the total value as at 30 September.

### Cash flows and capital structure

Net cash outflow for the period was £192 million (2004: £64 million inflow). Net borrowings at the period end increased to £752 million from £545 million at 31 March 2005. The level of gearing rose from 15% as at 31 March 2005 (restated) to 20% at 30 September.

The above numbers reflect the progress to-date on the £500 million return of capital to shareholders, which was approved by shareholders on 6 July. A special dividend of £245 million was paid to shareholders in July and, as at 30 September, £151 million of share purchases had been made under the share buy-back programme. Since 30 September, a further £47 million of share purchases have been made.

### Valuation policy

There have been no significant changes to 3i's valuation methodology in the period. In order to comply with IFRS, discounts are no longer applied to market prices in valuing our quoted investments and investments are valued at bid price rather than mid price. As a result, the carrying value of our quoted portfolio at the period end was £27 million higher (31 March 2005: £25 million higher) than it would have been under the previous methodology.

### Changes to accounting policies

As set out on page 18, 3i has adopted IFRS for the first time this period. As a result, certain accounting policies and methods have been amended to comply with IFRS. The comparative figures in respect of 2004 have been restated to reflect these adjustments.

Details of the principal accounting policies and the restatement of the prior year results, including restatement of the balance sheet as at 31 March 2005, are set out on pages 26 to 32.

# Consolidated income statement

for the six months to 30 September 2005

	Notes	6 months to 30 September 2005 (unaudited) £m	6 months to 30 September 2004* (as restated) (unaudited) £m	12 months to 31 March 2005 (as restated) (unaudited) £m
Realised profits over value on the disposal of investments		189	89	250
Unrealised profits on the revaluation of investments	2	223	86	245
		412	175	495
<b>Portfolio income</b>				
Dividends		39	52	104
Income from loans and receivables		52	55	101
Fees receivable		18	19	27
<b>Gross portfolio return</b>	1	521	301	727
Carried interest receivable		57	1	2
Carried interest and investment performance plans		(26)	(25)	(66)
Fund management fees		15	14	30
Operating expenses		(92)	(80)	(171)
Share-based payments		(4)	(3)	(6)
<b>Net portfolio return</b>		471	208	516
Treasury interest receivable	3	25	21	46
Interest payable	3	(37)	(46)	(89)
Movements in the fair value of derivatives		(33)	9	13
Finance income on pension plan		1	1	1
Exchange movements	4	35	32	13
Other income		1	–	1
<b>Profit before tax</b>		463	225	501
Income tax		(1)	(2)	(3)
<b>Profit after tax and profit for the period</b>		462	223	498
<b>Earnings per share</b>				
Basic (pence)	5	79.6p	36.9p	82.6p
Diluted (pence)	5	77.0p	36.3p	81.0p

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

The rates and amounts of dividends paid and proposed are shown in note 6.

# Consolidated statement of recognised income and expense

for the six months to 30 September 2005

	6 months to 30 September 2005  (unaudited) £m	6 months to 30 September 2004  (as restated)* (unaudited) £m	12 months to 31 March 2005  (as restated)* (unaudited) £m
<b>Profit for the period</b>	<b>462</b>	223	498
Gain/(loss) on valuation of property	1	–	(1)
Exchange differences on translation of foreign operations	(9)	(2)	5
Actuarial (losses)/gains	(7)	3	(1)
<b>Total recognised income and expense for the period</b>	<b>447</b>	224	501
Analysed in reserves as:			
Revenue	52	69	129
Capital	404	157	367
Exchange differences on translation	(9)	(2)	5

# Consolidated reconciliation of movements in equity

for the six months to 30 September 2005

	Notes	6 months to 30 September 2005  (unaudited) £m	6 months to 30 September 2004  (as restated)* (unaudited) £m	12 months to 31 March 2005  (as restated)* (unaudited) £m
<b>Total equity at start of period</b>		<b>3,699</b>	3,294	3,294
Total recognised income and expense for the period		447	224	501
Share-based payments		4	3	6
Ordinary dividends	6	(56)	(53)	(85)
Special dividends	6	(245)	–	–
Issues of shares		5	2	5
Share buy-backs		(151)	–	–
Own shares		8	5	(22)
<b>Total equity at end of period</b>		<b>3,711</b>	3,475	3,699

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

# Consolidated balance sheet

as at 30 September 2005

	Notes	30 September 2005 (unaudited) £m	30 September 2004 (as restated)* (unaudited) £m	31 March 2005 (as restated)* (unaudited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
Investments				
Quoted investments		260	279	235
Equity investments		2,625	2,586	2,682
Loans and receivables		1,504	1,532	1,400
<b>Investment portfolio</b>	7	<b>4,389</b>	<b>4,397</b>	<b>4,317</b>
Carry receivable		65	8	9
Interests in joint ventures		39	29	46
Property, plant and equipment		35	34	33
Investment property		7	5	6
<b>Total non-current assets</b>		<b>4,535</b>	<b>4,473</b>	<b>4,411</b>
<b>Current assets</b>				
Other current assets		199	160	116
Derivative financial instruments		29	22	35
Deposits		501	504	576
Cash and cash equivalents		373	440	623
<b>Total current assets</b>		<b>1,102</b>	<b>1,126</b>	<b>1,350</b>
<b>Total assets</b>		<b>5,637</b>	<b>5,599</b>	<b>5,761</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Loans and borrowings		(1,145)	(1,193)	(1,195)
Convertible Bonds		(353)	(347)	(352)
Subordinated liabilities		(49)	(48)	(50)
Retirement benefit obligation		(30)	(20)	(23)
Deferred income tax		–	(1)	(1)
Provisions		(6)	–	(5)
<b>Total non-current liabilities</b>		<b>(1,583)</b>	<b>(1,609)</b>	<b>(1,626)</b>
<b>Current liabilities</b>				
Trade and other payables		(226)	(216)	(245)
Loans and borrowings		–	(222)	(102)
Derivative financial instruments		(108)	(72)	(80)
Current income tax		(2)	(2)	(2)
Provisions		(7)	(3)	(7)
<b>Total current liabilities</b>		<b>(343)</b>	<b>(515)</b>	<b>(436)</b>
<b>Total liabilities</b>		<b>(1,926)</b>	<b>(2,124)</b>	<b>(2,062)</b>
<b>Net assets</b>		<b>3,711</b>	<b>3,475</b>	<b>3,699</b>
<b>Equity</b>				
Issued capital	8, 9	296	307	307
Share premium	9	368	361	364
Capital redemption reserve	9	13	1	1
Share-based payment reserve	9	13	6	9
Translation reserve	9	(4)	(2)	5
Capital reserve	9	2,866	2,403	2,613
Revenue reserve	9	228	449	477
Own shares	9	(69)	(50)	(77)
<b>Total equity</b>		<b>3,711</b>	<b>3,475</b>	<b>3,699</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

Approved by the Board  
9 November 2005

# Consolidated cash flow statement

for the six months to 30 September 2005

	6 months to 30 September 2005 (unaudited) £m	6 months to 30 September 2004 (as restated)* (unaudited) £m	12 months to 31 March 2005 (as restated)* (unaudited) £m
<b>Cash flow from operating activities</b>			
Purchase of investments	(724)	(426)	(719)
Proceeds from sales of investments	1,025	605	1,287
Interest received	28	26	64
Dividends received	39	53	103
Fees received	30	33	56
Operating expenses paid	(132)	(160)	(228)
Income tax paid	(1)	(1)	(1)
<b>Net cash flow from operations</b>	<b>265</b>	<b>130</b>	<b>562</b>
<b>Cash flow from financing activities</b>			
Proceeds from issues of share capital	5	2	5
Repurchase of own shares	(151)	–	(25)
Dividend paid	(301)	(54)	(85)
Interest received	26	20	46
Interest paid	(36)	(37)	(81)
Payment of finance lease liabilities	–	(1)	(1)
Proceeds from long-term borrowings	1	10	44
Repayment of long-term borrowings	(47)	(1)	(32)
Net cash flow from short-term borrowings	(86)	50	(67)
Net cash flow from deposits	75	(59)	(131)
<b>Net cash flow from financing activities</b>	<b>(514)</b>	<b>(70)</b>	<b>(327)</b>
<b>Cash flow from investing activities</b>			
Purchases of property, plant and equipment	(2)	(2)	(4)
Sales of property, plant and equipment	–	–	1
Divestment from joint venture	2	5	14
<b>Net cash flow from investing activities</b>	<b>–</b>	<b>3</b>	<b>11</b>
<b>Change in cash and cash equivalents</b>	<b>(249)</b>	<b>63</b>	<b>246</b>
<b>Cash and cash equivalents at 1 April</b>	<b>623</b>	<b>374</b>	<b>374</b>
<b>Effect of exchange rate fluctuations</b>	<b>(1)</b>	<b>3</b>	<b>3</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>373</b>	<b>440</b>	<b>623</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.



# Notes to the financial statements

## 1 Segmental analysis

The Group carries on its private equity activities in four business segments. There are three distinct business lines (Buyouts, Growth Capital and Venture Capital), the activities of which are described on page 2. The fourth segment (SMI) contains the Group's smaller minority investments.

The Group allocates all items of income and expenditure within gross portfolio return to a business segment.

	6 months to 30 September 2005  (unaudited) £m	6 months to 30 September 2004  (as restated)* (unaudited) £m	12 months to 31 March 2005  (as restated)* (unaudited) £m
<b>Gross portfolio return</b>			
Buyouts			
Realised profits over value on the disposal of investments	62	22	103
Unrealised profits on the revaluation of investments	79	76	122
Portfolio income	58	47	76
	199	145	301
Growth Capital			
Realised profits over value on the disposal of investments	60	50	110
Unrealised profits on the revaluation of investments	86	(3)	109
Portfolio income	22	46	66
	168	93	285
Venture Capital			
Realised profits over value on the disposal of investments	36	10	35
Unrealised profits on the revaluation of investments	23	12	37
Portfolio income	2	1	4
	61	23	76
SMI			
Realised profits over value on the disposal of investments	31	7	2
Unrealised profits on the revaluation of investments	35	1	(23)
Portfolio income	27	32	86
	93	40	65
	521	301	727

## 2 Unrealised profits on the revaluation of investments

	6 months to 30 September 2005  (unaudited)			6 months to 30 September 2004  (as restated)* (unaudited)			12 months to 31 March 2005  (as restated)* (unaudited)		
	Equity £m	Loans and receivables £m	Total £m	Equity £m	Loans and receivables £m	Total £m	Equity £m	Loans and receivables £m	Total £m
Movement in the fair value of equity	313	–	313	174	–	174	440	–	440
Impairment of loans and receivables	–	(53)	(53)	–	(44)	(44)	–	(129)	(129)
Provisions	(24)	(13)	(37)	(16)	(28)	(44)	(28)	(38)	(66)
	289	(66)	223	158	(72)	86	412	(167)	245

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

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

### 3 Net interest payable

	6 months to 30 September 2005 (unaudited) £m	6 months to 30 September 2004 (as restated)* (unaudited) £m	12 months to 31 March 2005 (as restated)* (unaudited) £m
<b>Treasury interest receivable</b>			
Interest on bank deposits	25	21	46
<b>Interest payable</b>			
Interest on loans and borrowings	(29)	(38)	(73)
Interest on Convertible Bonds	(3)	(3)	(5)
Amortisation of Convertible Bonds	(4)	(4)	(8)
Interest on subordinated borrowings	(1)	(1)	(3)
	(37)	(46)	(89)
<b>Net interest payable</b>	<b>(12)</b>	<b>(25)</b>	<b>(43)</b>

### 4 Exchange movements

	6 months to 30 September 2005 (unaudited) £m	6 months to 30 September 2004 (as restated)* (unaudited) £m	12 months to 31 March 2005 (as restated)* (unaudited) £m
<b>Exchange movements on assets and liabilities held at fair value</b>	<b>4</b>	<b>29</b>	<b>19</b>
<b>Other recognised exchange movements</b>			
Exchange movements on loan investments	7	11	8
Exchange movements on borrowings	7	(29)	(17)
Exchange movements on other assets and liabilities	17	21	3
	31	3	(6)
<b>Total exchange movements in the income statement</b>	<b>35</b>	<b>32</b>	<b>13</b>
<b>Exchange differences on translation of foreign operations</b>	<b>(9)</b>	<b>(2)</b>	<b>5</b>
<b>Net exchange movement</b>	<b>26</b>	<b>30</b>	<b>18</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

## Notes to the financial statements (continued)

### 5 Per share information

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

#### Earnings per share

	6 months to 30 September 2005  (unaudited)	6 months to 30 September 2004  (as restated)* (unaudited)	12 months to 31 March 2005  (as restated)* (unaudited)
<b>Basic</b>	<b>79.6p</b>	36.9p	82.6p
<b>Diluted</b>	<b>77.0p</b>	36.3p	81.0p
<b>Earnings (£m)</b>			
Profit for the year attributable to equity holders of the Company	462	223	498
Effect of dilutive potential ordinary shares	5	5	11
	<b>467</b>	228	509

	6 months to 30 September 2005  (unaudited) Number	6 months to 30 September 2004  (unaudited) Number	12 months to 31 March 2005  (unaudited) Number
<b>Number of shares</b>			
Weighted average number of shares in issue	580,583,146	604,250,584	603,240,340
Effect of dilutive potential ordinary shares			
Share options	1,697,906	381,696	119,980
Convertible Bonds	24,750,000	24,750,000	24,750,000
<b>Diluted shares</b>	<b>607,031,052</b>	629,382,280	628,110,320

#### Net assets per share

	6 months to 30 September 2005  (unaudited)	6 months to 30 September 2004  (as restated)* (unaudited)	12 months to 31 March 2005  (as restated)* (unaudited)
<b>Basic</b>	<b>679p</b>	574p	615p
<b>Diluted</b>	<b>677p</b>	574p	614p
<b>Net assets (£m)</b>			
Net assets attributable to equity holders of the Company	3,711	3,475	3,699

	6 months to 30 September 2005  (unaudited) Number	6 months to 30 September 2004  (unaudited) Number	12 months to 31 March 2005  (unaudited) Number
<b>Number of shares</b>			
Number of shares in issue	546,363,945	605,010,144	601,912,869
Effect of dilutive potential ordinary shares			
Share options	1,952,013	538,649	1,007,723
	<b>548,315,958</b>	605,548,793	602,920,592

No adjustment has been made to the opening number of shares used in the above calculations for the share consolidation on 8 July 2005.

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

## 6 Dividends

	6 months to 30 September 2005  (unaudited) p per share	6 months to 30 September 2004 (as restated)* (unaudited) p per share	12 months to 31 March 2005 (as restated)* (unaudited) p per share
<b>Declared and paid during the period</b>			
Ordinary shares			
Final dividend	9.3	8.9	8.9
Special dividend	40.7	–	–
Interim dividend	–	–	5.3
	50.0	8.9	14.2
<b>Proposed dividend</b>	5.5	5.3	9.3

The Directors have proposed an interim dividend of 5.5p per share.

	6 months to 30 September 2005  (unaudited) £m	6 months to 30 September 2004 (as restated)* (unaudited) £m	12 months to 31 March 2005 (as restated)* (unaudited) £m
<b>Declared and paid during the period</b>			
Ordinary shares			
Final dividend	56	53	53
Special dividend	245	–	–
Interim dividend	–	–	32
	301	53	85
<b>Proposed dividend</b>	30	32	56

## 7 Investment portfolio

	Quoted investments (unaudited) £m	Equity investments (unaudited) £m	Loans and receivables (unaudited) £m
<b>Book value at 1 April 2005*</b>	235	2,682	1,400
Additions	3	312	391
Transfers	64	(34)	(30)
Disposals, repayments and write-offs	(98)	(515)	(257)
Unrealised profits on the revaluation of portfolio investments	56	171	1
Currency and translation movement	–	9	(1)
<b>Book value at 30 September 2005</b>	260	2,625	1,504

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

## Notes to the financial statements (continued)

### 8 Issued capital

	30 September 2005 (unaudited) Number	30 September 2005 (unaudited) £m	30 September 2004 (unaudited) Number	30 September 2004 (unaudited) £m	31 March 2005 (unaudited) Number	31 March 2005 (unaudited) £m
<b>Authorised</b>						
Ordinary shares of 50p	–	–	820,000,000	410	820,000,000	410
Ordinary shares of 53½p	771,764,704	410	–	–	–	–
Unclassified shares of 10p	1,000,000	–	1,000,000	–	1,000,000	–
<b>Issued and fully paid</b>						
<b>Ordinary shares of 50p</b>						
Balance at the beginning of the period	614,409,167	307	613,479,159	307	613,479,159	307
Share options	268,792	–	358,324	–	930,008	–
Share consolidation	(614,677,959)	(307)	–	–	–	–
Closing balance	–	–	613,837,483	307	614,409,167	307

During the period to 8 July 2005, the Company issued shares for cash on the exercise of share options at various prices from 467p to 664p per share. The Company repurchased 400,452 shares at 683p per share. These shares were cancelled after the Company consolidated its share capital on 8 July 2005. The Company consolidated its share capital by issuing 16 53½p shares for every 17 50p shares held. This coincided with the payment of a special dividend of 40.7p per share (see note 6).

	30 September 2005 (unaudited) Number	30 September 2005 (unaudited) £m	30 September 2004 (unaudited) Number	30 September 2004 (unaudited) £m	31 March 2005 (unaudited) Number	31 March 2005 (unaudited) £m
<b>Ordinary shares of 53½p</b>						
Balance at the beginning of the period	–	–	–	–	–	–
Share consolidation	578,520,432	307	–	–	–	–
Share options	523,503	–	–	–	–	–
Shares cancelled	(21,256,896)	(11)	–	–	–	–
Closing balance	557,787,039	296	–	–	–	–

Since 11 July, the Company issued shares for cash on the exercise of share options at various prices from 467p to 664p per share. The Company repurchased 20,880,000 shares at an average price of 712p per share. These shares, and those purchased before the share consolidation, were cancelled and a transfer made to the capital redemption reserve equal to the nominal value of the shares repurchased.



## 9 Equity

	Share capital (unaudited) £m	Share premium (unaudited) £m	Capital redemption reserve (unaudited) £m	Share-based payment reserve (unaudited) £m	Translation reserve (unaudited) £m	Capital reserve (unaudited) £m	Revenue reserve (unaudited) £m	Own shares (unaudited) £m	Total equity (unaudited) £m
<b>Six months to 30 September 2005</b>									
Balance at 1 April 2005*	307	364	1	9	5	2,613	477	(77)	3,699
Total recognised income and expense					(9)	404	52		447
Share-based payments				4					4
Issues of shares	1	4							5
Dividends paid							(301)		(301)
Share buy-backs	(12)		12			(151)			(151)
Own shares								8	8
Balance at 30 September 2005	296	368	13	13	(4)	2,866	228	(69)	3,711
<b>Six months to 30 September 2004*</b>									
Balance at 1 April 2004	307	359	1	3		2,246	433	(55)	3,294
Total recognised income and expense					(2)	157	69		224
Share-based payments				3					3
Dividends paid							(53)		(53)
Issues of shares		2							2
Own shares								5	5
Balance at 30 September 2004	307	361	1	6	(2)	2,403	449	(50)	3,475
<b>Year to 31 March 2005*</b>									
Balance at 1 April 2004	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)
Balance at 31 March 2005	307	364	1	9	5	2,613	477	(77)	3,699

### **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. Transfers are made from this reserve as share options are exercised, lapse or expire.

### **Translation reserve**

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

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

# Basis of preparation

The interim financial statements of 3i Group plc are for the six months to 30 September 2005. These interim consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (November 2005) and in respect of the revisions to IAS 39 published by the International Accounting Standards Board (“IASB”) in June 2005 and IAS 19 issued but awaiting EU ratification. The standards to be applied, which will be adopted for the first time for the purpose of preparing consolidated financial statements for the year to 31 March 2006, will be those issued by the IASB and endorsed by the EU as at 31 March 2006. The IFRS standards and IFRIC interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these consolidated financial statements.

3i Group plc’s consolidated financial statements were prepared in accordance with the United Kingdom’s Generally Accepted Accounting Principles (UK GAAP) until the year to 31 March 2005. In preparing 3i Group plc’s interim consolidated financial statements, the Board of Directors has amended certain accounting and valuation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments. These figures have not been subject to audit.

The Group’s IFRS accounting policies set out in pages 26 to 29 (Transition to IFRS) have been consistently applied to all periods presented. The effects of the transition from UK GAAP to IFRS on the Group’s profit after taxation, net assets and cash flows are provided in pages 29 to 32 (Transition to IFRS).

These interim consolidated financial statements have been prepared on the historical cost basis, except for investment property, land and buildings, derivative financial instruments and financial assets at fair value through profit or loss that have been included at fair value. The basis of consolidation is included on page 26.

This interim report does not constitute statutory accounts. The statutory accounts for the year to 31 March 2005, prepared under UK GAAP, have been filed with the Registrar of Companies on which the auditors issued a report, which was unqualified and did not contain a statement under section 237(2) or section 237(3) of the Companies Act 1985.

**Transitional arrangements** Rules regarding transitional arrangements are set out in IFRS 1, First-time adoption of IFRS, which generally requires full retrospective adoption of all accounting standards at the reporting date. Details of the primary IFRS exemptions that the Group has taken advantage of are included on page 29.

**Forward-looking statements** 3i’s actual future results may differ materially from the plans, goals and expectations set forth in any of its forward-looking statements. Any forward-looking statements speak only as of the date they are made. 3i does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

## Independent review report to 3i Group plc

**Introduction** We have been instructed by the Company to review the financial information for the six months ended 30 September 2005 which comprises the Consolidated income statement, Consolidated statement of recognised income and expense, Consolidated reconciliation of movements in equity, Consolidated balance sheet, Consolidated cash flow statement, and the related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 “Review of interim financial information” issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

**Directors’ responsibilities** The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority.

As disclosed in the Basis of preparation, the next annual financial statements of the Group will be prepared in accordance with those IFRSs adopted for use by the European Union.

The accounting policies are consistent with those that the Directors intend to use in the next financial statements. There is, however, a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because as disclosed in the Basis of preparation, the Directors have anticipated that the revisions to IAS 39 published by the IASB in June 2005 and IAS 19, which have yet to be formally adopted for use in the EU will be so adopted in time to be applicable to the next annual financial statements.

**Review work performed** We conducted our review in accordance with guidance contained in Bulletin 1999/4 “Review of interim financial information” issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies have been applied. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

**Review conclusion** On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2005.

**Ernst & Young LLP**

London, 9 November 2005

# New investment analysis

The Group's equity, fixed income and loan investment totals £706 million for the six months to 30 September 2005 (excluding co-investment funds and joint ventures). Details of investment including co-investment funds are shown on page 23.

<b>Investment by business line (£m)</b>	<b>6 months to 30 September 2005</b>	<b>6 months to 30 September 2004</b>	<b>12 months to 31 March 2005</b>
Buyouts	358	200	338
Growth Capital	286	143	263
Venture Capital	58	72	143
SMI	4	7	11
Total	706	422	755

<b>Investment by geography (£m)</b>			
UK	283	152	334
Continental Europe	359	222	341
US	28	35	51
Asia	36	13	29
Total	706	422	755

<b>Continental European investment (£m)</b>			
Benelux	61	11	17
France	3	61	73
Germany/Austria/Switzerland	44	73	92
Italy	83	10	20
Nordic	111	42	81
Spain	42	23	41
Other European	15	2	17
Total	359	222	341

Other European includes investments in countries where 3i did not have an office at the period end.

<b>Investment by FTSE industrial classification (£m)</b>			
Resources	16	63	68
Industrials	125	97	163
Consumer goods	174	66	155
Services and utilities	327	116	234
Financials	22	43	59
Information technology	42	37	76
Total	706	422	755

<b>First and subsequent investment (£m)</b>			
First investment in new investee companies	512	258	488
Drawdown on existing arrangements for first investments	8	11	10
Investment by 3i in external funds	62	17	26
Newly arranged further investment in existing portfolio companies	91	98	167
Other – including capitalised interest	33	38	64
Total	706	422	755

# Portfolio analysis

The Group's equity, fixed income and loan investments total £4,389 million at 30 September 2005 (excluding co-investment funds and joint ventures).

	At 30 September 2005	At 31 March 2005 (as restated)*
<b>Portfolio value by business line (£m)</b>		
Buyouts	1,665	1,521
Growth Capital	1,321	1,292
Venture Capital	740	748
SMI	663	756
Total	4,389	4,317

<b>Portfolio value by geography (£m)</b>		
UK	2,178	2,258
Continental Europe	1,843	1,693
US	262	277
Asia	106	89
Total	4,389	4,317

<b>Continental European portfolio value (£m)</b>		
Benelux	157	180
France	254	292
Germany/Austria/Switzerland	540	503
Italy	149	69
Nordic	394	344
Spain	282	249
Other European	67	56
Total	1,843	1,693

Other European includes investments in countries where 3i did not have an office at the period end.

<b>Portfolio value by FTSE industrial classification (£m)</b>		
Resources	152	162
Industrials	1,230	1,077
Consumer goods	991	969
Services and utilities	1,266	1,214
Financials	228	326
Information technology	522	569
Total	4,389	4,317

<b>Portfolio value by valuation method (£m)</b>		
Imminent sale or IPO	281	373
Listed	216	198
Secondary market	44	37
Earnings	1,155	1,138
Cost	605	468
Further advance	162	203
Net assets	96	92
Other (including other Venture Capital assets valued below cost)	326	408
Loan investments and fixed income shares	1,504	1,400
Total	4,389	4,317

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

	At 30 September 2005	At 31 March 2005 (as restated)*
<b>Buyout portfolio value by valuation method (£m)</b>		
Imminent sale or IPO	96	134
Listed	56	48
Secondary market	1	1
Earnings	358	372
Cost	131	71
Net assets	4	4
Other	78	22
Loan investments and fixed income shares	941	869
Total	1,665	1,521
<b>Growth Capital portfolio value by valuation method (£m)</b>		
Imminent sale or IPO	136	120
Listed	31	62
Secondary market	24	9
Earnings	395	360
Cost	220	159
Further advance	8	14
Net assets	28	33
Other	79	200
Loan investments and fixed income shares	400	335
Total	1,321	1,292
<b>Venture Capital portfolio value by valuation method (£m)</b>		
Imminent sale or IPO	17	33
Listed	121	72
Secondary market	15	22
Earnings	5	25
Cost	248	221
Further advance	151	186
Net assets	1	1
Other Venture Capital assets valued below cost	76	71
Other	45	55
Loan investments and fixed income shares	61	62
Total	740	748
– of which early stage Venture Capital	622	561
<b>SMI portfolio value by valuation method (£m)</b>		
Imminent sale or IPO	32	86
Listed	8	16
Secondary market	4	5
Earnings	397	381
Cost	6	17
Further advance	3	3
Net assets	63	54
Other	48	60
Loan investments and fixed income shares	102	134
Total	663	756
<b>Venture Capital portfolio value by sector (£m)</b>		
Healthcare	238	228
Communications	162	189
Electronics, semiconductors and advanced technologies	130	141
Software	210	190
Total	740	748

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.



# Realisations analysis

Analysis of the Group's realisation proceeds (excluding third party co-investment funds and joint ventures).

	6 months to 30 September 2005	6 months to 30 September 2004	12 months to 31 March 2005
<b>Realisation proceeds by business line (£m)</b>			
Buyouts	379	218	505
Growth Capital	381	245	443
Venture Capital	120	58	156
SMI	161	82	198
Total	1,041	603	1,302
<b>Realisation proceeds by geography (£m)</b>			
UK	504	445	897
Continental Europe	445	148	365
US	57	9	34
Asia	35	1	6
Total	1,041	603	1,302
<b>Realisation proceeds (£m)</b>			
IPO	45	34	41
Sale of quoted investments	117	38	134
Trade and other sales	638	345	744
Loan and fixed income share repayments	241	186	383
Total	1,041	603	1,302
<b>Realisation proceeds by FTSE industrial classification (£m)</b>			
Resources	84	60	105
Industrials	88	90	142
Consumer goods	255	90	394
Services and utilities	349	282	457
Financials	173	3	29
Information technology	92	78	175
Total	1,041	603	1,302

# Portfolio and investment analysis including co-investment funds

<b>Investment by business line</b> (£m)	<b>6 months to 30 September 2005</b>	<b>6 months to 30 September 2004</b>	<b>12 months to 31 March 2005</b>
Buyouts	483	291	532
Growth Capital	290	149	274
Venture Capital	58	73	144
SMI	4	8	12
<b>Total</b>	<b>835</b>	<b>521</b>	<b>962</b>

<b>Investment by geography</b> (£m)			
UK	345	201	440
Continental Europe	423	268	433
US	28	35	51
Asia	39	17	38
<b>Total</b>	<b>835</b>	<b>521</b>	<b>962</b>

<b>Portfolio value by business line</b> (£m)	<b>At 30 September 2005</b>	<b>At 31 March 2005 (as restated)*</b>
Buyouts	2,600	2,521
Growth Capital	1,501	1,474
Venture Capital	749	747
SMI	721	813
<b>Total</b>	<b>5,571</b>	<b>5,555</b>

<b>Portfolio value by geography</b> (£m)		
UK	2,650	2,742
Continental Europe	2,531	2,428
US	262	283
Asia	128	102
<b>Total</b>	<b>5,571</b>	<b>5,555</b>

\*As restated for the adoption of IFRS, as explained within the Basis of preparation on page 18.

## Funds under management

(£m)	<b>At 30 September 2005</b>	<b>At 31 March 2005</b>
Third party unquoted co-investment funds	1,817	1,913

# Ten large investments

The table below shows investments valued at £50 million or above. One investment has been excluded for commercial reasons.

Investments	Description of business	Business line	Geography	First invested in	Residual cost <sup>1</sup> £m	Directors' valuation <sup>1</sup> £m
<b>Petrofac Ltd</b>	Oilfield services	Growth Capital	UK	2002		
Equity shares					22	116
					<b>22</b>	<b>116</b>
<b>Oval (2040) Ltd (NCP)</b>	Transport management and parking services	Buyouts	UK	2005		
Equity shares					1	1
Loans					98	98
					<b>99</b>	<b>99</b>
<b>SR Technics Holding AG</b>	Technical solutions provider for commercial aircraft fleets	Buyouts	Switzerland	2002		
Equity shares					7	60
Loans					34	33
					<b>41</b>	<b>93</b>
<b>Giochi Preziosi Spa</b>	Manufacturer and distributor of toys	Buyouts	Italy	2005		
Equity shares					83	83
					<b>83</b>	<b>83</b>
<b>ERM Holdings Ltd</b>	Environmental consultancy	Buyouts	UK	2001		
Equity shares					1	45
Loans					42	35
					<b>43</b>	<b>80</b>
<b>Betapharm Arzneimittel GmbH</b>	Supplier of generic prescription drugs	Buyouts	Germany	2003		
Equity shares					33	55
Loans					19	20
					<b>52</b>	<b>75</b>
<b>Vetco International Ltd<sup>2</sup></b>	Oilfield equipment manufacturer	Buyouts	UK	2004		
Equity shares					–	33
Loans					30	31
					<b>30</b>	<b>64</b>
<b>Boxer TV – Access AB</b>	Digital TV distributor	Growth Capital	Nordic	2005		
Equity shares					58	59
					<b>58</b>	<b>59</b>
<b>Williams Lea Group Ltd</b>	Outsourced print services	Growth Capital	UK	1965		
Equity shares					33	59
					<b>33</b>	<b>59</b>
<b>Extec Holdings Ltd</b>	Manufacturing of screening and crushing machinery	Buyouts	UK	2002		
Equity shares					7	32
Loans					12	12
Fixed income					6	6
					<b>25</b>	<b>50</b>

## Notes

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

<sup>2</sup> As the residual cost of this investment is less than £0.5million, this cost is not shown in the above table.

# Forty other large investments

In addition to the investments shown on page 24, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £16 million. This does not include seven investments, which have been excluded for commercial reasons.

Investments	Description of business	Business line	Geography	First invested in	Residual cost <sup>1</sup> £m	Directors' valuation <sup>1</sup> £m
Refresco Holding BV	Fruit juice producer	Buyouts	Netherlands	2003	29	49
Senoble Holding SAS	Manufacturers of dairy products and chilled desserts	Growth Capital	France	2004	27	47
Infrastructure Investors LP ("I <sup>2</sup> ")	Secondary PFI and infrastructure investment fund	Growth Capital	UK	2005	46	46
Pharmadule Emtunga AB	Modular facilities to pharmaceuticals/biotech offshore and telecom sectors	Buyouts	Sweden	2003	38	46
Hayley Conference Centres Ltd	Conference centres	Growth Capital	UK	2005	41	41
Encon Ltd	Manufacturing and distribution of insulation materials	Buyouts	UK	1997	1	41
Care Principles Topco Ltd	Specialist healthcare	Buyouts	UK	1997	39	39
CSR Ltd <sup>2</sup>	Single-chip wireless systems	Venture Capital	UK	1999	2	34
H-Careholding AB	Elderly, primary and specialist care	Buyouts	Sweden	2005	33	33
Goromar XXI SL	Manufacturer of frits and glazes for ceramic tiles	Buyouts	Spain	2002	27	32
Telecity plc <sup>2</sup>	Services for internet service providers	Buyouts	UK	1998	18	31
Grup Maritim TCB, SL	Operation of port concessions	Buyouts	Spain	1999	12	28
Aviapartner Group SA	Airport ground handling	Buyouts	Netherlands	2005	28	28
Local Press Ltd	Newspaper publisher	Buyouts	UK	2004	20	28
Smartstream Technologies Group Ltd	Software and services	Buyouts	UK	2000	28	27
Clínica Baviera	Eye laser surgery clinics	Growth Capital	Spain	2005	27	27
Alö Intressenter AB	Manufacturer of front end loaders	Growth Capital	Sweden	2002	26	27
Coor Service Management AB	Facilities management	Buyouts	Sweden	2004	26	25
Interhyp AG <sup>2</sup>	Online mortgage broker	Venture Capital	Germany	2000	3	24
Travellex Ltd <sup>3</sup>	Foreign currency services	Buyouts	UK	1998	–	24
Sparrowhawk Media Limited	UK and International TV channel and business library	Buyouts	UK	2005	21	23
Target Express Ltd	Freight transport by road	Buyouts	UK	2000	43	23
Nimbus Communications Ltd	Media and entertainment services	Growth Capital	India	2005	22	22
Metropolitan Management BV (Polyconcept)	Supplier of promotional products	Growth Capital	UK	2005	21	21
Freightliner Group Ltd	Rail freight	Buyouts	UK	1997	9	21
Morse Plc <sup>2</sup>	Technology integrator	Buyouts	UK	1995	8	21
Alma Mater Fund	Investment in university student accommodation	Growth Capital	UK	2003	20	20
Malachite 1 Ltd (Buy as you view)	Coin meter based hire purchase	Buyouts	UK	2004	20	20
Financière Keos SA (Keolis)	Transport operator	Buyouts	France	2004	20	20
Progetto 26 Spa	Production of glass products	Growth Capital	Italy	1997	16	19
Nova Rodman SL	Boat manufacturer	Growth Capital	UK	2004	19	19
Hyva Investments BV	Branded hydraulics to commercial vehicles	Buyouts	Netherlands	2004	15	19
CID Car Interior Design Holding GmbH	Manufacturer of vehicle interior trims	Growth Capital	Germany	2004	18	18
Lichtwer Pharma GmbH	Supplier of phyto-pharmaceutical products	Buyouts	Germany	2004	18	18
FocusMedia Holding Ltd <sup>2</sup>	Services and utilities	Growth Capital	China	2004	3	18
Doc Morris.com	Internet chemist	Venture Capital	Germany	2001	8	17
Sosei Co Ltd <sup>2</sup>	Creation and development of performance enhanced medicine	Venture Capital	Japan	2003	8	17
HSS Hire Service Holdings Ltd	Tool hire	Buyouts	UK	2004	17	17
A C Hotels SA	Hoteliers	Growth Capital	Spain	2000	9	16
Hospitais Portugueses SA	Private healthcare supplier	Growth Capital	Spain	2004	14	16

## 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.

3 As the residual cost of this investment is less than £0.5 million, this cost is not shown in the above table.

# Transition to IFRS

## Introduction

3i prepared its 31 March 2005 consolidated financial statements in accordance with accounting standards issued by the UK Accounting Standards Board, the pronouncements of the Urgent Issues Task Force, relevant Statements of Standard Accounting Practice, the Association of Investment Trust Companies' Investment Trust SORP and in compliance with the Companies Act 1985.

The Company was authorised and regulated by the Financial Services Authority as a deposit taker and its March 2005 consolidated financial statements were prepared in accordance with the requirements of Part VII of the Companies Act 1985 in respect of banking companies and Groups. The Company surrendered its authorisation on 27 May 2005. Consequently, these accounts are not presented as those of a bank.

For accounting periods beginning on or after 1 April 2005, 3i is preparing its consolidated financial statements in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations issued by the International Financial Reporting Interpretation Committee and its predecessor body (together "IFRS"). The standards to be applied, which will be adopted for the first time for the purpose of preparing consolidated financial statements for the year to 31 March 2006, will be those issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("EU") as at 31 March 2006. 3i presents below the details of the accounting policies and the transitional exemptions or choices it has applied in adopting IFRS. Reconciliations of retained profit and equity for the comparative periods are shown to illustrate the impact of the move from UK GAAP to IFRS. These reconciliations have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and early adopted as at the time of preparing these statements, and in respect of the revisions to IAS 39 published by the IASB in June 2005 and IAS 19 issued but waiting EU ratification.

## Group accounting policies under IFRS

**A Basis of preparation** These interim financial statements have been prepared, for the first time, on the basis of the IFRS accounting policies set out below.

The disclosures required by IFRS 1, First-time adoption of IFRS, concerning the transition from UK GAAP are also given below. The adoption date for 3i is 1 April 2004 (the start of its 2005 financial year).

The financial statements have been prepared on the historical cost basis, except for investment property, land and buildings, derivative financial instruments and financial assets at fair value through profit or loss that have been included at fair value.

The preparation of accounts in accordance with IFRS requires management to make estimates and assumptions that affect the:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the accounts; and
- reported amounts of income and expenses during the reporting period.

Actual results could differ from those estimates. The most significant techniques for estimation are described in the accounting policies below.

**B Basis of consolidation** The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is an entity where the Company has the power to govern the financial and operating policies so as to obtain benefit from its activities.

The results of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Group or up to the date when control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**C Investments in associates** An associate is an entity over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control.

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 which allows investments held by venture capital organisations to be excluded from the scope of IAS 28 Investment in Associates provided that those investments upon initial recognition are designated as fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in profit or loss in the period of the change.

**D Interests in joint ventures** A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, which is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interest in jointly controlled entities through which it carries on its business 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, which allows venturer's interests held by venture capital organisations to be excluded from the scope of IAS 31 Interests in Joint Ventures provided that those investments upon initial recognition are designated as fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement, with changes in fair value recognised in profit or loss in the period of the change.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated on consolidation to the extent of the Group's interest in the joint venture.



**E Foreign currencies** The presentation currency of the Group is pounds sterling.

Transactions in foreign currencies are translated into the functional currency of the group company that is party to the transaction at the exchange rates ruling at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date. Non-monetary items carried at fair value in the balance sheet that are denominated in foreign currency are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rate as on the date of the initial transaction.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

The assets and liabilities of foreign operations are translated into pounds sterling at the exchange rates ruling at the balance sheet date. The income and expenses of foreign operations are translated into sterling at the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the translation reserve in equity. On disposal of foreign operations the cumulative amount of foreign exchange previously recognised in equity is recognised in the income statement.

**F Property, plant and equipment** Land and buildings held by the Group 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 asset revaluation reserve in equity except to the extent that it reverses a previous valuation deficit on the same asset charged in profit or loss in which case the surplus is recognised in profit or loss 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 asset revaluation 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 profit or loss. On subsequent sale or retirement of a revalued property, the attributable revaluation surplus in the asset revaluation reserve is transferred directly to accumulated profits.

Plant and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of plant and equipment, generally over three to five years.

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.

**G Investment property** Investment properties are held in the balance sheet at fair value at the balance sheet date. Gains or losses arising from the changes in fair value are recognised in profit or loss for the period in which they arise.

**H Financial instruments** Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

**I Investments** 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 a return based on the receipt of interest and dividends and changes in fair value of equity investments. Therefore, all 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. These policies remain unchanged from previous years except that under IFRS, quoted investments are valued at bid price without discount. Acquisition costs are attributed to equity and recognised immediately in profit or loss.

**J Cash and cash equivalents** Cash and short-term deposits 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 outstanding short-term borrowings.

**K 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.

## Transition to IFRS (continued)

**L Convertible Bonds** Convertible Bonds, where the Bonds are issued in the same functional currency as the issuing entity, are regarded as compound instruments consisting of a liability component and an equity component.

Where the functional currency of the Convertible Bonds differs from that of the issuing entity, 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.

**M Equity instruments** Equity instruments issued by the Company are recognised at the proceeds received, net of any direct issue costs.

**N Derivative financial instruments** The Group uses derivative financial instruments to manage the risks associated with and foreign currency fluctuations from its 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. The Group does not use derivative financial instruments for speculative purposes.

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.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

**O Provisions** Provisions are recognised when the Group has a present obligation 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.

**P Portfolio return** Gross portfolio return represents the sum of realised profit over value on the disposal of investments, the movement in the fair value of equity investments, the impairment of loans and receivables and investment income. This is considered to be "revenue" under IFRS.

**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 the fair value of the equity and the amortised cost of the loans and receivables at the start of the accounting period.

**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. Foreign exchange gains and losses on equity investments and loans and receivables are disclosed as part of the currency movement in profit or loss.

**Portfolio income** is that portion of income that is directly related to the return from individual investments and is recognised to the extent that it is probable that the economic benefit will flow to the Group 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 when the shareholders' rights to receive payment have been established.

**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.

**Investment management fees** are earned from the ongoing management of private equity funds, which primarily co-invest alongside the Group. This income is recognised to the extent that it is probable that the economic benefit will flow to the Group and the income can be reliably measured.

**Q 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 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 outside profit or loss 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.

**R Borrowing costs** Borrowing costs are recognised as an expense in the period in which they are incurred in accordance with the benchmark treatment.

**S Share-based payments** In accordance with the transitional provisions of IFRS 1, the Group has applied the requirements of IFRS 2, Share-based payment 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. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period.

**T Income tax** Income tax expense represents the sum of the tax currently payable and deferred tax.

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax assets and liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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.

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 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. 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.

**U Investment Trust status** The Company is an investment company as defined by section 266 of the Companies Act 1985 and carries on its business and is approved by the HM Revenue & Customs as an investment trust. Investment trusts approved in this way are not liable for income tax on capital profits. The Articles of Association prohibit the distribution of its capital profits by way of dividend.

Fees receivable earned and deal related costs incurred as an intrinsic part of the intention to acquire or dispose of an investment, have been accounted for directly in the capital reserve. Income tax losses have been transferred between capital and revenue in order to be utilised against excess taxable profits in those reserves. Administrative expenses incurred associated with the making and managing of investments are allocated between capital and revenue. Finance costs less interest income on surplus funds have been allocated between revenue and capital.

#### **Transition effects**

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 exemptions:

- a) 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.
- b) Share-based payment: IFRS 2 has been adopted from the transition date and is only being applied to relevant equity instruments granted on or 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.
- c) All equity investments have been designated at the date of transition to be assets at fair value through profit or loss.

## Transition to IFRS (continued)

### 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	30 September 2004 £m	31 March 2005 £m
<b>Total return under UK GAAP</b>		231	512
IAS 39 – Quoted investments	(a)	(9)	(11)
IAS 39 – Fair valuation of derivatives	(b)	(12)	1
IAS 39 – Convertible Bonds	(c)	17	5
IFRS 2 – Share-based payments	(d)	(3)	(6)
IAS 21 – Functional currencies and exchange rates	(e)	2	(5)
IAS 16 – Own use property	(f)	–	1
IAS 19 – Retirement benefits	(g)	(3)	1
<b>Profit under IFRS</b>		223	498

	Note	30 September 2004 £m	31 March 2005 £m	1 April 2004 £m
<b>Total equity under UK GAAP</b>		3,436	3,637	3,230
IAS 39 – Quoted investments	(a)	27	25	36
IAS 39 – Fair valuation of derivatives	(b)	(39)	(26)	(27)
IAS 39 – Convertible Bonds	(c)	19	7	2
IAS 10 – Dividends payable	(h)	32	56	53
<b>Total equity under IFRS</b>		3,475	3,699	3,294

	Note	30 September 2004 £m	31 March 2005 £m
<b>Change in cash under UK GAAP</b>			(24)
IAS 7 – Short-term deposits	(i)	87	178
<b>Change in cash and cash equivalents under IFRS</b>			63

### 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 3i's current 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 (£550m). Under IFRS, the derivative element of the Bonds is held at fair value with the Bonds being held at amortised cost. Subsequent to the IFRS presentation on 23 June 2005, a further review of the carrying value of the Bonds and of their derivative element has been carried out. This has resulted in a decrease in shareholders' funds of £13 million at 31 March 2005 and a reduction in profit of £8 million for the year to 31 March 2005 compared with the IFRS numbers previously presented.
- (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 UK GAAP, 3i's policy in respect of foreign currency translation was to translate all foreign currency revenue items, assets, liabilities and reserves, including those of non-UK subsidiary undertakings into sterling at the exchange rates ruling at the balance sheet date. Under IFRS, revenue items will be held at the rates in force at the time of the transaction. Exchange differences on the retranslation 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.
- (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 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.

### Detailed effects of adopting IFRS

3i's previous consolidated financial statements were prepared in accordance with the requirements of Part VII of the Companies Act 1985 in respect of banking companies and groups. The transition to IFRS has resulted in significant changes in the presentation of the income statement and balance sheet.

The following tables demonstrate how items within 3i's previously published accounts equate with the new headings used within IFRS. In order to facilitate the understanding of this change, the order of certain items has been changed from those originally shown and certain subtotals have been omitted or added.

### Consolidated income for the year to 31 March 2005

	UK GAAP £m	Reanalysis between headings £m	Transfers from income statement to equity movements £m	Adjustments to UK GAAP £m	IFRS £m	
<b>Consolidated statement of total return</b>						<b>Consolidated income statement</b>
Realised profits on disposal of investments	260	(2)		(8)	250	Realised profits over value on the disposal of investments
Unrealised profits on revaluation of investments	270			(25)	245	Unrealised profits on revaluation of investments
	530	(2)	–	(33)	495	
<b>Operating income before interest payable</b>						<b>Portfolio income</b>
Dividend income from equity shares	104				104	Dividends
Dividend income from fixed income shares	7	(7)				
Loan interest receivable	94	7			101	Income from loans and receivables
Fees receivable	57	(30)			27	Fees receivable
Other interest receivable and similar income	46	(46)				
<b>Total operating income before interest payable</b>	308	(76)			232	
	838	(78)	–	(33)	727	<b>Gross portfolio return</b>
		2			2	Carried interest receivable
Carried interest and investment performance plans	(66)				(66)	Carried interest and investment performance plans
	–	30			30	Fund management fees
Administrative expenses	(172)	1		–	(171)	Administrative expenses
Share-based payments		(1)		(5)	(6)	Share-based payments
	600	(46)	–	(38)	516	<b>Net portfolio return</b>
		46			46	Treasury interest receivable
Interest payable	(82)			(7)	(89)	Interest payable
				13	13	Movement in the fair value of derivatives
Other finance income/(costs) on pension plan	1				1	Finance income on pension plan
				13	13	Currency
Other income			1		1	Other income
Actuarial (losses) on pension plan	(1)		1			
<b>Return before tax and currency translation adjustment</b>	518	–	2	(19)	501	<b>Profit before tax</b>
Tax	(3)				(3)	Income tax
<b>Return before currency translation adjustment</b>	515	–	2	(19)	498	<b>Profit after tax and profit for the year</b>
						<b>Income/(expense) recognised directly in equity</b>
Currency translation adjustment	(3)			8	5	Exchange differences on translation of foreign operations
			(1)		(1)	Actuarial gains/(losses)
			(1)		(1)	Loss on valuation of property
<b>Total return</b>	512	–	–	(11)	501	<b>Total recognised income and expense for the year</b>

# Transition to IFRS (continued)

## Consolidated balance sheet at 31 March 2005

	UK GAAP £m	Investments £m	Cash and borrowings £m	Other assets, liabilities and reserves £m	Adjustments to UK GAAP £m	IFRS £m	
<b>Assets</b>							<b>Assets</b>
Equity shares – listed	179	31			25	235	Quoted investments
Equity shares – unlisted	2,722	(40)				2,682	Equity investments
Loan investments	1,293	107				1,400	Loans and receivables
Fixed income shares	107	(107)					
		9				9	Carry receivable
Interests in joint ventures	46					46	Interest in joint ventures
Tangible fixed assets	39	(6)				33	Property, plant and equipment
		6				6	Investment property
	4,386	–	–	–	25	4,411	<b>Total non-current assets</b>
Other assets	54			(54)			Other current assets
Prepayments and accrued income	62			54		116	
Treasury bills and other eligible bills	1		(1)				
					35	35	Derivative financial instruments
Loans and advances to banks	1,019		(443)			576	Deposits
Debt securities held for treasury purposes	179		444			623	Cash and cash equivalents
	1,315	–	–	–	35	1,350	<b>Total current assets</b>
<b>Total assets</b>	5,701	–	–	–	60	5,761	<b>Total assets</b>
<b>Liabilities</b>							<b>Liabilities</b>
Deposits by banks	(208)		208				Loans and borrowings
Debt securities in issue	(1,089)		(106)			(1,195)	Convertible Bonds
Convertible Bonds	(378)				26	(352)	Subordinated liabilities
Subordinated liabilities	(50)					(50)	Retirement benefit obligation
Defined benefit liabilities	(23)					(23)	Deferred income tax
				(1)		(1)	Provisions
Provisions for liabilities and charges	(13)			8		(5)	
	(1,761)	–	102	7	26	(1,626)	<b>Total non-current liabilities</b>
Accruals and deferred income	(244)			(1)		(245)	Trade and other payables
			(102)			(102)	Loans and borrowings
					(80)	(80)	Derivative financial instruments
Other liabilities	(59)			1	56	(2)	Current income tax
				(7)		(7)	Provisions
	(303)	–	(102)	(7)	(24)	(436)	<b>Total current liabilities</b>
	(2,064)	–	–	–	2	(2,062)	<b>Total liabilities</b>
<b>Net assets</b>	3,637	–	–	–	62	3,699	<b>Net assets</b>
							<b>Equity</b>
Called up share capital	307					307	Issued capital
Share premium account	364					364	Share premium
Capital redemption reserve	1					1	Capital redemption reserve
					9	9	Share-based payment reserve
					5	5	Translation reserve
Capital reserve	2,605				8	2,613	Capital reserve
Revenue reserve	437				40	477	Revenue reserve
Own shares	(77)					(77)	Own shares
<b>Equity shareholders' funds</b>	3,637	–	–	–	62	3,699	<b>Total equity</b>

# Information for shareholders

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## Financial calendar

Ex-dividend date	30 November 2005
Record date	2 December 2005
Interim dividend expected to be paid	4 January 2006

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## Shareholder profile Location of investors at 30 September 2005

UK (including retail shareholders)	78.1%
US	10.5%
Continental Europe	8.5%
Other international	2.9%

At 30 September 2005, the number of shares in issue was 557,787,039.

## Registrars

For shareholder administration enquiries, including changes of address, please contact:

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PDF versions of frequently used Registrars' forms are available on our investor relations website [www.3igroup.com](http://www.3igroup.com)

# Investor relations and general enquiries

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Alternatively, please visit our investor relations website [www.3igroup.com](http://www.3igroup.com) for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.



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