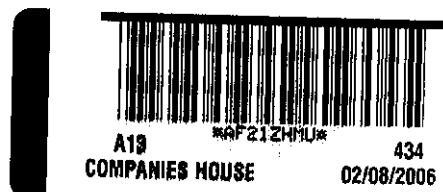


20/01/07



# 3i Holdings plc

Annual report and consolidated accounts  
for the year to 31 March 2006



## Directors' report

The Directors submit their report with the accounts for the year to 31 March 2006.

### Principal Activities

The principal activities of the Company and of its subsidiaries ("the Group") are investment and the provision of secretarial and administration services to its ultimate and immediate parent undertaking, 3i Group plc. There have been no changes in activity in the year.

### Performance during the year

The financial statements of the Company and the Group for the year to 31 March 2006 appear on pages 8 to 37.

Total recognised income and expense for the year of the Group was a profit of £12 million (2005: £88 million, as restated under IFRS). The Directors do not recommend the payment of a dividend for the financial year (2005: £nil).

The principal reason for the current year fall in profitability of the Group is that the administrative expenses of the main operating company, 3i plc, associated with providing the secretarial and administration to 3i Group plc, have increased whereas the fee income receivable from 3i Group plc, which is calculated as a fixed percentage of funds under management, has increased to a lesser extent.

### Financial position at the end of the year

Total equity is £171 million (2005: £183 million, as restated for IFRS). The reduction in total equity is primarily a consequence of distributions by subsidiaries of the Company to 3i Group plc in respect of its direct minority investment in these subsidiaries.

Total shareholder's equity in 3i Holdings plc is £64 million (2005: £104 million, as restated for IFRS). The reduction in total shareholder's equity is principally the result of the increased administrative expenses in providing secretarial and administration to 3i Group plc, as detailed above.

### Directors

M J Queen  
C P Rowlands  
J B C Russell  
P Waller  
P E Yea  
S P Ball – appointed 13 January 2006  
D R Collis – appointed 13 January 2006  
A J M Taylor – appointed 13 January 2006  
J S Wilson – appointed 24 April 2006  
R W Perry – resigned 6 July 2005

## 3i Holdings plc

### Directors' report

C P Rowlands, J B C Russell and P E Yea retire by rotation in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Having been appointed since the last Annual General Meeting, D R Collis, A J M Taylor, S P Ball and J S Wilson retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

### Directors' interests

The beneficial interests in, and options to subscribe for, ordinary shares in 3i Group plc of those persons who were Directors of the Company at the end of the financial year are set out below. Share interests and options stated prior to the 3i Group plc share consolidation on 11 July 2005 relate to ordinary shares of 50p each whilst those stated after that date relate to ordinary shares of 53<sup>1</sup>/<sub>8</sub>p each. The beneficial interests include interests arising by virtue of conditional rights to acquire ordinary shares from the trustee of The 3i Group Employee Trust (the "Trust") under the terms of The 3i Group Management Equity Investment Plan ("MEIP").

	Beneficial interests		Share options			
	held on 1 April 2005*	held on 31 March 2006	held on 1 April 2005*	granted during the period	exercised during the period	held on 31 March 2006
S P Ball	30,186	30,422	293,122	-	-	293,122
D R Collis	44,047	44,288	51,353	-	-	51,353
C P Rowlands	1,766	6,552	298,548	44,733	-	343,281
J B C Russell	106,867	143,542	536,142	44,733	-	580,875
A J M Taylor	176,751	175,839	305,753	-	-	305,753
P Waller	485,684	459,406	580,043	44,733	-	624,776

\* or date of appointment if later.

As potential beneficiaries of the Trust, each Director held an interest in the ordinary shares held by the Trust (other than in those shares held by the Trust on behalf of specific individuals). The Trust held 12,496,297 ordinary shares as at 1 April 2005 (which included 443,107 shares held for individuals), 11,363,359 ordinary shares as at 13 January 2006 (which included 229,473 shares held for individuals) and 11,311,280 ordinary shares as at 31 March 2006 (which included 230,522 shares held for individuals). These holdings of the Trust include ordinary shares over which Directors are

## 3i Holdings plc

### Directors' report

mentioned above as having conditional rights to acquire under MEIP.

The beneficial interests of P E Yea and M J Queen in, and options to subscribe for, Ordinary shares in 3i Group plc are disclosed in the accounts of that company.

P Waller has retained throughout the year an interest in one share of €16 in a fellow subsidiary company, 3i Gestion SA, and an interest in one share of €0.25 in another fellow subsidiary company, 3i SA. These shares were held in order to comply with the provisions contained in the Articles of Association of those companies.

Except as set out above, no person who was a Director at year end had any disclosable interest in the shares, debentures or loan stock of the Company or 3i Group plc or any of its subsidiaries at the beginning of the financial year or the date of appointment (as the case may be) or at the end of the financial year. No Director, during or at the end of the year, was materially interested in any contract that was significant in relation to the business of the Company.

### Employment

During the year to 31 March 2006 the average number of persons employed by the Group was 733 (2005: 763).

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

The Group treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group. Financial support is also provided by the Group, through a Company Disability Scheme, to disabled employees who are unable to work.

Employee appraisals, staff conferences and surveys, informal consultations and team briefings are the Group's principal means of keeping in touch with the views of its employees. Managers throughout the Group have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

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

There are clearly defined staff policies for pay and working conditions.

## 3i Holdings plc

### Directors' report

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

The Group's remuneration policy is influenced by market conditions and practices in the countries in which it operates. All employees receive a base salary and are eligible for a performance related bonus and to participate in the Group's share schemes (except in the US) to encourage employees' involvement in 3i Group plc's performance. Investment executives may also participate in co-investment plans and carried interest schemes which allow executives to share directly in the future profits on investments. Employees participate in local state or company pension schemes as appropriate to local market conditions.

### Financial risk management

The Company provides part of the funding of 3i Group plc. Detailed policies and numerical disclosures regarding the associated risk management are set out in note 21 of the financial statements.

### Statement of Directors' responsibilities

The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the year and of the result for the year. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Appropriate accounting policies, which follow generally accepted accounting practice and are explained in the notes to the financial statements, have been applied consistently and applicable accounting standards have been followed. In addition, the financial statements comply with International Financial Reporting Standards as adopted by the European Union and reasonable and prudent judgements and estimates have been used in their preparation.

### Going concern

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

### Charitable and political donations

Charitable donations made by the Group in the year to 31 March 2006 amounted to £390,570 (2005: £343,986).

## 3i Holdings plc

### Directors' report

In line with Group policy no donations were made to political parties during the year. During the period, 3i plc, the main trading company of the Group, made one payment, an annual subscription to the Industry Forum of £3,084, which may fall within the definition of donations to EU political organisations.

### Policy for paying creditors

The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice, copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors at the year end (2005: £nil).

### Audit information

Pursuant to s234ZA (2) of the Companies Act 1985, each of the Directors confirms that: (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution to reappoint Ernst & Young LLP as the Company's auditors will be put to the forthcoming Annual General Meeting.

By Order of the Board

Company Secretary



Registered Office:  
16 Palace Street  
London SW1E 5JD  
6 July 2006

## Independent auditors' report to the members of 3i Holdings plc

We have audited the Group and the Company financial statements (the "financial statements") of 3i Holdings plc for the year to 31 March 2006 which comprise the Consolidated income statement, the Group and the Company Statement of recognised income and expenses, the Group and the Company Reconciliation of movements in equity, the Group and the Company Balance sheets, the Group and the Company Cash flow statements, Significant accounting policies and the related notes 1 to 33. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

### Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union as set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the financial statements.

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

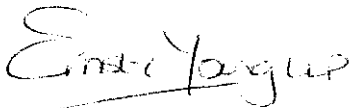
## Independent auditors' report to the members of 3i Holdings plc

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

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2006 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 March 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.



Ernst & Young LLP  
Registered Auditor  
London  
6 July 2006



# 3i Holdings plc

## Consolidated income statement

for the year to 31 March 2006

	Notes	2006 £m	2005 (as restated)* £m
Realised profits over value on the disposal of investments	2	12	20
Unrealised profits on the revaluation of investments	3	38	48
		50	68
Portfolio income			
Dividends		2	4
Income from loans and receivables		10	9
Fees receivable	4	2	2
<b>Gross portfolio return</b>	1	64	83
Income from parent undertaking and fellow subsidiaries		140	130
Carried interest payable		(29)	(4)
Fund management and other income		57	73
Operating expenses	5	(213)	(182)
Share-based payments	8	(8)	(6)
<b>Net portfolio return</b>		11	94
Net interest payable	10	(18)	(18)
Movements in the fair value of derivatives	11	6	10
Exchange movements	12	3	(1)
Other income	13	21	-
<b>Profit before tax</b>		23	85
Income taxes	14	(2)	(2)
<b>Profit after tax and profit for the year</b>		21	83
Profit attributable to minority interest in subsidiary companies		60	55
Profit attributable to equity shareholder of 3i Holdings plc		(39)	28
		21	83

\* As restated to reflect the adoption of IFRS.

## Statement of recognised income and expense

for the year to 31 March 2006

	Notes	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Profit for the year		21	83	(69)	(26)
Exchange differences on translation of foreign operations	12	7	6	-	-
Actuarial losses	9	(16)	(1)	-	-
<b>Total recognised income and expense for the year</b>		12	88	(69)	(26)
Analysed in reserves as:					
Minority interest in subsidiary companies	28	60	55	-	-
Retained earnings	28	(56)	27	(69)	(26)
Translation reserve	28	7	6	-	-
		12	88	(69)	(26)

\* As restated to reflect the adoption of IFRS.

## Reconciliation of movements in equity

for the year to 31 March 2006

		Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Total equity at start of year		183	46	124	90
Total recognised income and expense for the year		12	88	(69)	(26)
Share-based payments	8	8	6	-	-
Capital contribution	28	-	60	-	60
Minority interest:					
Share of new investments	28	9	7	-	-
Share of distributions	28	(41)	(24)	-	-
<b>Total equity at end of year</b>		171	183	55	124

\* As restated to reflect the adoption of IFRS.

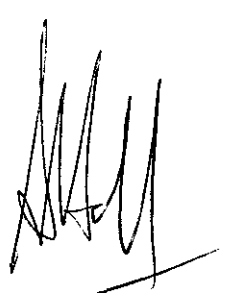
# 3i Holdings plc

## Balance sheet

as at 31 March 2006

	Notes	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Assets</b>					
<b>Non-current assets</b>					
Investments	15	320	290	33	-
Interests in joint ventures	16	-	31	-	24
Interests in Group entities	17	-	-	657	752
Property, plant and equipment	18	22	8	-	-
Investment property	19	-	6	-	-
<b>Total non-current assets</b>		<b>342</b>	<b>335</b>	<b>690</b>	<b>776</b>
<b>Current assets</b>					
Other current assets	20	199	286	147	147
Deposits		51	21	25	6
Cash and cash equivalents		41	79	-	31
<b>Total current assets</b>		<b>291</b>	<b>386</b>	<b>172</b>	<b>184</b>
<b>Total assets</b>		<b>633</b>	<b>721</b>	<b>862</b>	<b>960</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Loans and borrowings	23	(275)	(317)	(274)	(315)
Subordinated liabilities	24	(24)	(50)	-	-
Retirement benefit obligation	9	(17)	(23)	-	-
Deferred income tax	14	(1)	(1)	-	-
Provisions	26	(5)	(5)	-	-
<b>Total non-current liabilities</b>		<b>(322)</b>	<b>(396)</b>	<b>(274)</b>	<b>(315)</b>
<b>Current liabilities</b>					
Trade and other payables	25	(124)	(119)	(525)	(507)
Loans and borrowings	23	(1)	-	-	-
Derivative financial instruments	22	(8)	(14)	(8)	(14)
Current income tax	14	(2)	(2)	-	-
Provisions	26	(5)	(7)	-	-
<b>Total current liabilities</b>		<b>(140)</b>	<b>(142)</b>	<b>(533)</b>	<b>(521)</b>
<b>Total liabilities</b>		<b>(462)</b>	<b>(538)</b>	<b>(807)</b>	<b>(836)</b>
<b>Net assets</b>		<b>171</b>	<b>183</b>	<b>55</b>	<b>124</b>
<b>Equity</b>					
Issued capital	27	1	1	1	1
Other capital reserve	28	17	9	-	-
Retained earnings	28	33	88	54	123
Translation reserve	28	13	6	-	-
<b>Total shareholder's equity</b>		<b>64</b>	<b>104</b>	<b>55</b>	<b>124</b>
Minority interest in subsidiary companies	28	107	79	-	-
<b>Total equity</b>	28	<b>171</b>	<b>183</b>	<b>55</b>	<b>124</b>

\* As restated to reflect the adoption of IFRS.



# 3i Holdings plc

## Cash flow statement

for the year to 31 March 2006

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Cash flow from operating activities</b>				
Purchase of investments	(48)	(43)	(40)	(132)
Proceeds from sales of investments	109	81	64	40
Interest received	8	4	-	-
Dividends received	2	4	-	32
Fees received	2	2	3	2
Operating expenses	(245)	(258)	-	-
Income tax paid	(4)	(1)	-	-
<b>Net cash flow from operations</b>	<b>(176)</b>	<b>(211)</b>	<b>27</b>	<b>(58)</b>
<b>Cash flow from financing activities</b>				
Receipts from parent, fellow subsidiaries and subsidiaries	282	181	19	4
Capital contribution	-	60	-	60
Interest receivable	3	3	1	1
Interest paid	(22)	(25)	(19)	(20)
Distributions paid by subsidiary companies to minority interest	(41)	(24)	-	-
Proceeds from long-term borrowings	4	40	-	10
Repayment of long-term borrowings	(51)	(30)	(40)	-
Net cash flow from short-term borrowings	-	-	-	(2)
Net cash flow from deposits	(30)	10	(19)	-
<b>Net cash flow from financing activities</b>	<b>145</b>	<b>215</b>	<b>(58)</b>	<b>53</b>
<b>Cash flow from investing activities</b>				
Purchases of property, plant and equipment	(15)	(4)	-	-
Sales of property, plant and equipment	7	1	-	-
Investments in joint ventures	-	-	-	-
Divestment from joint venture	-	9	-	1
<b>Net cash flow from investing activities</b>	<b>(8)</b>	<b>6</b>	<b>-</b>	<b>1</b>
<b>Change in cash and cash equivalents</b>	<b>(39)</b>	<b>10</b>	<b>(31)</b>	<b>(4)</b>
Cash and cash equivalents at 1 April	79	67	31	34
Effect of exchange rate fluctuations	1	2	-	1
<b>Cash and cash equivalents at the end of the year</b>	<b>41</b>	<b>79</b>	<b>-</b>	<b>31</b>

\* As restated to reflect the adoption of IFRS.

### Significant accounting policies

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

The financial statements were authorised for issue by the Directors on 6 July 2006.

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

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 1985.

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 Holdings plc has taken the following key decisions:

- The effect of changes in foreign exchange rates: Under IFRS 1, cumulative translation differences on the consolidation of subsidiaries are being accumulated from the date of transition to IFRS and not from the original acquisition date.
- Share-based payment: IFRS 2 Share-based Payments ("IFRS 2") has been adopted from the transition date and is only being applied to relevant equity instruments granted after 7 November 2002 and not vested as at 1 January 2005. The Group has elected not to take up the option of full retrospective application of the standard.
- Financial Instruments: Under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), all equity investments have been designated at the date of transition to be assets at fair value through profit or loss including for subsidiaries held by the Company.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 33.

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

International Accounting Standards (IAS/IFRS's)	Effective date
IFRS 1 Amendment relating to IFRS 6	1 January 2006
IFRS 4 Insurance Contracts (Amendment to IAS 39 and IFRS4 - Financial Guarantee Contracts)	1 January 2006
IFRS 6 Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6 Amendment relating to IFRS 6	1 January 2006
IFRS 7 Financial Instruments: Disclosures	1 January 2007
IAS 1 Amendment - Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19 Amendment - Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 21 Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates - Net Investment in a Foreign Operation	1 January 2006
IAS 39 Fair Value Option	1 January 2006
IAS 39 Amendments to IAS 39 - Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39 Cash Flow Hedge Accounting	1 January 2006
IAS 39 Amendment to IAS 39 and IFRS 4 - Financial Guarantee Contracts	1 January 2006
International Financial Reporting Interpretations Committee (IFRIC)	Effective date
IFRIC 4 Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7 Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyper Inflationary Economies	1 March 2006
IFRIC 8 Scope of IFRS 2	1 May 2006
IFRIC 9 Reassessment of Embedded Derivatives	1 June 2006

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

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

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

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

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

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

### C Basis of consolidation

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

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

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

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

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

### D Exchange differences

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

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

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

### E Investment portfolio

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

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

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

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

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

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

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

**G Carried interest payable** The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest payable" is the term used for amounts payable to executives on investment-related transactions. A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest scheme.

### H Property, plant and equipment

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

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

**(ii) Vehicles and office equipment** Vehicles and office equipment are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years; computer equipment three years; computer software three years; motor vehicles four years.

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

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

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

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

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

**(iv) Derivative financial instruments** Derivative financial instruments are used to manage the risk associated with changes in interest rates on its borrowings. This is achieved by the use of interest rate swaps.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to the fair value at each reporting date. The fair value of interest rate swaps is determined with reference to future cash flows and current interest rates. All changes in the fair value of derivative financial instruments are taken to the income statement.

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

**J Investment Property** Investment properties are properties that are held either to earn rental income or for capital appreciation or both.

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

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

### K Employee benefits

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

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

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

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

The Group enters into arrangements that are equity-settled share-based payments with certain employees (including Directors). These are measured at fair value at the date of grant, which is then recognised in the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative changes since the previous balance sheet is recognised in the income statement, with a corresponding entry in equity.

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

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

**N Equity instruments** Equity instruments issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

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

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control reversal of the temporary difference and it is probable that the temporary differences will reverse in the foreseeable future.

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

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

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

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



## 1 Segmental analysis

	2006	2006	2006	2006	2006
	Buyouts	Growth	Venture	Smaller	Total
	£m	capital	capital	minority	£m
	£m	£m	£m	investment	£m
<b>Gross portfolio return</b>					
Realised profits over value on the disposal of investments	8	3	1	-	12
Unrealised profits on the revaluation of investments	29	18	(9)	-	38
Portfolio income	6	8	-	-	14
	43	29	(8)	-	64
<b>Net (investment)/divestment</b>					
Realisation proceeds	62	39	3	5	109
New investment	(2)	(42)	(5)	-	(49)
	60	(3)	(2)	5	60
<b>Balance sheet</b>					
Value of investment portfolio	74	209	31	6	320

	2005	2005	2005	2005	2005
	(as restated)*	(as restated)*	(as restated)*	(as restated)*	(as restated)*
	Buyouts	Growth	Venture	Smaller	Total
	£m	capital	capital	minority	£m
	£m	£m	£m	investment	£m
<b>Gross portfolio return</b>					
Realised profits over value on the disposal of investments	9	4	7	-	20
Unrealised profits on the revaluation of investments	2	35	11	-	48
Portfolio income	8	5	1	1	15
	19	44	19	1	83
<b>Net (investment)/divestment</b>					
Realisation proceeds	23	40	18	-	81
New investment	(18)	(19)	(7)	-	(44)
	5	21	11	-	37
<b>Balance sheet</b>					
Value of investment portfolio	97	149	33	11	290

\* As restated to reflect the adoption of IFRS.

**Buyouts** Mid-market transactions in Europe with a value of up to €1 billion.

**Growth capital** Minority investments in established and profitable businesses across Europe, investing €10 million to €150 million per transaction.

**Venture capital** Investments in early and late-stage technology companies, typically in the €2 million to €50 million range in Europe and the US, focusing on the software, communications, healthcare and electronics sectors.

	2006	2006	2006	2006
	UK	Continental	US	Total
	£m	Europe	£m	£m
	£m	£m	£m	£m
<b>Gross portfolio return</b>	-	64	-	64
<b>Net (investment)/divestment</b>				
Realisation proceeds	-	109	-	109
New investment	-	(47)	(2)	(49)
	-	62	(2)	60
<b>Balance sheet</b>				
Value of investment portfolio	9	307	4	320

	2005 (as restated)*	2005 (as restated)* Continental Europe	2005 (as restated)* US	2005 (as restated)* Total
	UK £m	£m	£m	£m
<b>Gross portfolio return</b>	2	81	-	83
<b>Net (investment)/divestment</b>				
Realisation proceeds	1	80	-	81
New investment	-	(43)	(1)	(44)
	1	37	(1)	37
<b>Balance sheet</b>				
Value of investment portfolio	6	282	2	290

\* As restated to reflect the adoption of IFRS.

## 2 Realised profit over value on the disposal of investments

	2006	2006	2006	2005 (as restated)*	2005 (as restated)*	2005 (as restated)*
	Equity £m	Loans and receivables £m	Total £m	Equity £m	Loan and receivables £m	Total £m
Net proceeds	65	44	109	45	36	81
Valuation of disposed investments	(57)	(38)	(95)	(27)	(36)	(63)
Investments written off	(2)	-	(2)	2	-	2
	6	6	12	20	-	20

\* As restated to reflect the adoption of IFRS.

## 3 Unrealised profits on the revaluation of investments

	2006	2006	2006	2005 (as restated)*	2005 (as restated)*	2005 (as restated)*
	Equity £m	Loans and receivables £m	Total £m	Equity £m	Loan and receivables £m	Total £m
Movement in the fair value of equity	30	-	30	87	-	87
Impairment of loans and receivables	-	2	2	-	(30)	(30)
Provisions	2	4	6	-	(9)	(9)
	32	6	38	87	(39)	48

\* As restated to reflect the adoption of IFRS.

Provisions are recognised on investments where it is considered there is a significant risk of failure and are released if investments recover.

## 4 Fees receivable

	2006 £m	2005 (as restated)* £m
Fees receivable	3	2
Deal-related costs	(1)	-
	2	2

\* As restated to reflect the adoption of IFRS.

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

## 5 Operating expenses

Operating expenses include the following amounts:

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

\* As restated to reflect the adoption of IFRS.

## Services provided by the Group's auditor

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

	2006	2005 (as restated)*
	£m	£m
<b>Audit services</b>		
Statutory audit - UK	0.6	0.5
- overseas	0.4	0.3
Audit-related regulatory reporting	0.1	0.1
	1.1	0.9
<b>Non-audit services</b>		
Investment due diligence	0.9	0.2
	2.0	1.1

\* As restated to reflect the adoption of IFRS.

**Audit services** The Group's auditor received less than £0.1million (2005: less than £0.1 million) for the statutory audit of the Company.

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

Included in the above are fees paid to the Group's auditors in respect of non-audit services in the UK of £0.3 million (2005: £0.1 million).

**Auditor independence** In addition to the above the Group has identified £0.4 million (2005: £1.3 million) of investment-related fees paid to Ernst & Young LLP by investee companies, where the Group's investee companies and investment teams have appointed the service provider. It is estimated that Ernst & Young LLP receive less than 10% of the total investment-related fees paid to the four largest accounting firms. Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of the auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for the audit services to the pension scheme during the year were less than £0.1 million (2005: less than £0.1 million).

## 6 Staff costs

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

\* As restated to reflect the adoption of IFRS.

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

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

## 7 Directors' emoluments

	2006	2005 (as restated)*
	£m	£m
The aggregate emoluments of the Directors were:		
Salary and benefits	3.6	1.9
Performance related payments	6.3	1.9
	9.9	3.8

\* As restated to reflect the adoption of IFRS.

In addition to the Directors' emoluments shown above, all of the Directors are eligible to receive awards under long term incentive arrangements. Details of these arrangements are set out in the remuneration report of 3i Group plc for the year to 31 March 2006. Share options to acquire shares in 3i Group plc were exercised during the year by 2 Directors (2005: 4). Retirement benefits are accruing to 8 Directors (2005: 7) under the 3i Group Pension Plan, a defined benefit contributory scheme.

Certain Directors of the Company were also Directors of the ultimate parent undertaking, 3i Group plc, receiving total remuneration for the year of £4.4 million (2005: £3.2 million), all of which was paid by the Group. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the Company and their services as Directors of the ultimate parent undertaking.

Highest paid directors	2006	2005 (as restated)*
	£m	£m
Emoluments of the highest paid director were:		
Total emoluments	2.0	1.1
Defined benefit pension scheme - accrued benefits	0.1	-

\* As restated to reflect the adoption of IFRS.

The highest paid director exercised no share options in the year (2005: nil).

## 8 Share-based payments

**Share options** The Group has a number of share option schemes that entitle employees to purchase shares in 3i Group plc. Options are exercisable at a price equal to the market value of 3i Group plc's shares on the date of grant. Each of the schemes has different vesting periods and conditions and these are summarised below:

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

**The 3i Group Discretionary Share Plan** Options granted after 31 March 2001 were granted under the Discretionary Share Plan and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. For options granted between 1 April 2001 and 31 March 2003 and for options granted to three Directors in June 2003, if the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant but from the same base year. For options granted between 1 April 2003 and 31 March 2004 the performance period is extended to four years from the date of grant. For options granted after 31 March 2004, there is no opportunity for the performance condition to be retested after the three year performance period.

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

	2006	2006 Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average exercise price (pence)
Outstanding at start of the year	24,943,622	739	22,919,966	761
Granted	3,597,145	692	4,687,971	600
Exercised	(2,270,547)	543	(704,603)	858
Lapsed	(965,962)	868	(1,959,812)	470
Outstanding at end of the year	25,304,158	745	24,943,522	739
Exercisable at end of the year	4,860,952	837	4,007,987	540

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

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

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

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

The inputs to this model were as follows:

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

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

**Performance share awards** Performance share awards are awards of shares to executive Directors which are transferred to the participant by an employee benefit trust on terms that the shares may, in certain circumstances, be forfeited. While the shares are subject to forfeiture they may not be sold, transferred or used as security. Awards are subject to a performance condition determining whether and to what extent the award will vest. Non-vested shares are forfeited. The performance condition provides for shares to vest based on 3i Group plc's "percentage rank" by total shareholder return for the period of three years from grant (averaged over a 60 day period) compared to a comparator group.

The comparator group consists of the FTSE 100 Index constituents at the grant date (adjusted for mergers, demergers and delistings during the performance period). A company's percentage rank is its rank in the comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. If 3i Group plc's percentage rank is less than 50% none of the shares vest. At a percentage rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata.

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

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

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

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

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

In the current financial year expected volatility was determined using an average of the implied volatility and historical volatility of 3i Group plc's share price over the preceding three years, whereas in the prior year it was based on the historic volatility only. The expected volatility of the comparator group is 35% (2005: 35%).

**Share incentive plan** Eligible UK employees may participate in an Inland Revenue approved Share Incentive Plan intended to encourage employees to invest in 3i Group plc's shares and which accordingly is not subject to a performance condition. During the year participants could invest up to £125 per month from their pre-tax salaries in 3i Group plc's shares (referred to as partnership shares). For each share so acquired 3i Group plc granted two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than by reason of retirement) within three years of grant. Dividends are reinvested on behalf of participants in further shares (referred to as dividend shares).

3i Group plc issues shares to cover the matching shares. The fair value of matching shares is the share price at the date of the award.

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

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

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

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

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

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

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

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

## 9 Retirement benefit obligation

### Retirement benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

## 10 Net interest payable

	2006 £m	2005 (as restated)* £m
<b>Treasury interest receivable</b>		
Interest on bank deposits	3	5
<b>Interest payable</b>		
Interest on loans and borrowings	(20)	(21)
Interest on subordinated borrowings	(3)	(3)
Finance income on pension plan	2	1
	(21)	(23)
<b>Net interest payable</b>	<b>(18)</b>	<b>(18)</b>

\* As restated to reflect the adoption of IFRS.

## 11 Movements in the fair value of derivatives

	2006 £m	2005 (as restated)* £m
Interest rate swaps	6	10

\* As restated to reflect the adoption of IFRS.

## 12 Exchange movements

	2006 £m	2005 (as restated)* £m
Exchange movements on items recorded in currencies different from the functional currency of the entity	3	(1)
<b>Total exchange movements in the income statement</b>	<b>3</b>	<b>(1)</b>
Exchange differences on translation of foreign operations	7	6
<b>Net exchange movement</b>	<b>10</b>	<b>5</b>

\* As restated to reflect the adoption of IFRS.

## 13 Other income

	2006	2005 (as restated)*
	£m	£m
Write-back of subordinated borrowings	20	-
Gain on disposal of property	1	-
	21	-

\* As restated to reflect the adoption of IFRS.

## 14 Income taxes

	2006	2005 (as restated)*
	£m	£m
<b>Current tax</b>		
UK Corporation tax	(1)	(1)
Less: Double tax relief	1	1
Foreign tax	(2)	(2)
	(2)	(2)
<b>Deferred tax</b>		
Deferred income tax	-	-
<b>Total income taxes in the income statement</b>	<b>(2)</b>	<b>(2)</b>

\* As restated to reflect the adoption of IFRS.

### Reconciliation of income taxes in the income statement

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

	2006	2005 (as restated)*
	£m	£m
Profit before tax	23	85
Profit before tax multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	(7)	(26)
Effects of:		
Permanent differences	8	19
Short-term timing differences	-	(2)
Current period unutilised tax losses	(7)	(1)
Non-taxable UK dividend income	1	-
Repatriated profits of overseas subsidiaries	(1)	(7)
Foreign tax	(2)	(2)
Foreign tax credits available for double tax relief	1	1
Tax losses claimed as group relief for nil consideration	5	16
<b>Total income taxes in the income statement</b>	<b>(2)</b>	<b>(2)</b>

\* As restated to reflect the adoption of IFRS.

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

\* As restated to reflect the adoption of IFRS.

At 31 March 2006 the Group had unutilised tax losses and deductible temporary differences of £158 million (2005: £164 million). It is considered too uncertain that the Group will generate sufficient taxable profits in the future against which the associated deferred tax assets can be offset and therefore the assets have not been recognised. These assets are available to carry forward indefinitely.

## 15 Investment portfolio

	Group 2006 Equity investments £m	Group 2006 Loans and receivables £m	Group 2006 Total £m
Opening book value	219	71	290
Additions	22	27	49
Disposals, repayments and write-offs	(54)	(38)	(92)
Revaluation	30	-	30
Provision and impairment of loans and receivables	2	6	8
Other movements	8	27	35
Closing book value	227	93	320
Quoted	8	-	8
Unquoted	219	93	312
Closing book value	227	93	320

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

Additions to loans and receivables includes £1 million (2005: £1 million) interest received by way of loan notes. A corresponding amount has been included in income from loans and receivables.

	Group 2005 Equity investments (as restated)* £m	Group 2005 Loans and receivables (as restated)* £m	Group 2005 Total (as restated)* £m
Opening book value	162	95	257
Additions	19	25	44
Disposals, repayments and write-offs	(25)	(36)	(61)
Revaluation	87	-	87
Provision and impairment of loans and receivables	-	(39)	(39)
Other movements	(24)	26	2
Closing book value	219	71	290
Quoted	5	-	5
Unquoted	214	71	285
Closing book value	219	71	290

\* As restated to reflect the adoption of IFRS.

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

## 16 Interest in joint ventures

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

	Group 2006	Group 2005 (as restated)*
	£m	£m
<b>Income statement</b>		
Realised profit over value on the disposal of investments	-	-
Unrealised profits on the revaluation of investments	(3)	5
	Group 2006	Group 2005 (as restated)*
	£m	£m
<b>Balance sheet</b>		
Interests in joint ventures	-	31
Represented by:		
Cost	-	95
Share of post acquisition retained surpluses less losses	-	(10)
Impairment	-	(54)
	-	31

\* As restated to reflect the adoption of IFRS.

## 17 Interests in Group entities

	Company Total £m
<b>Opening book value*</b>	<b>752</b>
Additions	40
Disposals	(69)
Revaluation	(66)
<b>Closing book value</b>	<b>657</b>

\* As restated to reflect the adoption of IFRS.

Details of significant Group entities are given in note 32.

## 18 Property, plant and equipment

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Land and buildings</b>				
Opening cost or valuation	-	1	-	-
Additions at cost	1	-	-	-
Revaluation	-	(1)	-	-
<b>Closing cost or valuation</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book amount</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* As restated to reflect the adoption of IFRS.

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

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

\* As restated to reflect the adoption of IFRS.

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

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Cost</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Aggregate depreciation</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
<b>Net book amount</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>

\* As restated to reflect the adoption of IFRS.

Finance lease rentals are payable as follows:

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

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

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

## 19 Investment property

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Opening book value</b>	<b>6</b>	<b>5</b>	<b>-</b>	<b>-</b>
Disposals	(6)	-	-	-
Revaluation	-	1	-	-
<b>Closing book value</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>

\* As restated to reflect the adoption of IFRS.

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

## 20 Other current assets

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
Prepayments	8	9	3	3
Other debtors	36	42	-	-
Amounts due from group undertakings	-	-	5	2
Amounts due from parent undertaking	155	235	139	142
	199	286	147	147

\* As restated to reflect the adoption of IFRS.

## 21 Financial risk management

A comprehensive risk management framework is operated by the Group's immediate and ultimate parent undertaking, 3i Group plc, which covers all of 3i Group plc's subsidiaries. Further information on this risk management framework is included in the report and accounts of 3i Group plc for the year to 31 March 2006.

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

**Liquidity risk** The Group had cash resources at the end of the period of £92 million (2005: £100 million). In addition, the Group partakes alongside 3i Group plc in committed multi-currency facilities which had undrawn facilities of £488 million at 31 March 2006.

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

**Foreign exchange risk** The risk management framework seeks to reduce structural currency exposures at a 3i Group plc level by matching assets denominated in foreign currency with borrowings in the same currency. The exposure of the Group to the Euro, US dollar, Swedish krona, Swiss franc and all other currencies combined, is shown in the table below.

	2006 Sterling £m	2006 Euro £m	2006 US Dollar £m	2006 Swedish krona £m	2006 Swiss franc £m	2006 Other £m	2006 Total £m
Total assets	216	308	30	76	2	1	633
Total liabilities	(330)	(38)	(14)	(77)	(1)	(2)	(462)
Net assets	(114)	270	16	(1)	1	(1)	171

	2005 (as restated)* Sterling £m	2005 (as restated)* Euro £m	2005 (as restated)* US Dollar £m	2005 (as restated)* Swedish krona £m	2005 (as restated)* Swiss franc £m	2005 (as restated)* Other £m	2005 (as restated)* Total £m
Total assets	224	342	66	87	1	1	721
Total liabilities	(349)	(101)	(9)	(79)	-	-	(538)
Net assets	(125)	241	57	8	1	1	183

\* As restated to reflect the adoption of IFRS.

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

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

	2006 Within 1 year £m	2006 1-2 years £m	2006 2-3 years £m	2006 3-4 years £m	2006 4-5 years £m	2006 Over 5 years £m	2006 Total £m
<b>Fixed rate</b>							
Loans and receivables	1	5	7	6	8	64	91
Deposits	51	-	-	-	-	-	51
Cash and cash equivalents	41	-	-	-	-	-	41
Subordinated liabilities	-	-	-	-	-	(24)	(24)
Derivatives	(24)	(210)	-	(7)	(5)	-	(246)
	69	(205)	7	(1)	3	40	(87)
<b>Floating rate</b>							
Loans and receivables	2	-	-	-	-	-	2
Loans and borrowings	(276)	-	-	-	-	-	(276)
Derivatives	246	-	-	-	-	-	246
	(28)	-	-	-	-	-	(28)

	2005 (as restated)* Within 1 year £m	2005 (as restated)* 1-2 years £m	2005 (as restated)* 2-3 years £m	2005 (as restated)* 3-4 years £m	2005 (as restated)* 4-5 years £m	2005 (as restated)* Over 5 years £m	2005 (as restated)* Total £m
<b>Fixed rate</b>							
Loans and receivables	3	1	5	4	5	52	70
Deposits	21	-	-	-	-	-	21
Cash and cash equivalents	79	-	-	-	-	-	79
Subordinated liabilities	-	-	-	-	-	(50)	(50)
Derivatives	(30)	(24)	(210)	-	(7)	(5)	(276)
	73	(23)	(205)	4	(2)	(3)	(156)
<b>Floating rate</b>							
Loans and receivables	1	-	-	-	-	-	1
Loans and borrowings	(317)	-	-	-	-	-	(317)
Derivatives	276	-	-	-	-	-	276
	(40)	-	-	-	-	-	(40)

\* As restated to reflect the adoption of IFRS.

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

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

**Fair value interest rate risk** The fair value of 3i's derivative assets and liabilities is subject to interest rate risk. At 31 March 2006 the fair value of derivative financial instruments was £8 million (2005: £14 million).

## 22 Derivative financial instruments

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Current liabilities</b>				
Interest rate swaps	(8)	(14)	(8)	(14)

\* As restated to reflect the adoption of IFRS.

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

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

	2006 £m	2005 (as restated)* £m
Variable rate to fixed rate	246	276

\* As restated to reflect the adoption of IFRS.

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

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

## 23 Loans and borrowings

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Loans and borrowings</b>	<b>276</b>	<b>317</b>	<b>274</b>	<b>315</b>
<b>Loans and borrowings are repayable as follows:</b>				
Within one year	1	-	-	-
In the second year	200	76	200	75
In the third year	-	200	-	200
In the fourth year	-	40	-	40
In the fifth year	75	-	74	-
After five years	-	1	-	-
	<b>276</b>	<b>317</b>	<b>274</b>	<b>315</b>

\* As restated to reflect the adoption of IFRS.



Principal borrowings include:

			Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	Rate	Maturity	£m	£m	£m	£m
<b>Issued under the £2,000 million note issuance programme</b>						
<b>Variable rate</b>						
£200 million notes (public issue)	LIBOR+0.100%	2007	200	200	200	200
			200	200	200	200
<b>Committed multi-currency facilities</b>						
£486 million	LIBOR+0.210%	2010	-	-	-	-
£150 million	LIBOR+0.175%	2010	74	-	74	-
£360 million (facility expired)			-	75	-	75
€595 million (facility expired)			-	40	-	40
			74	115	74	115
<b>Other</b>						
Other bonds in issue		2010	1	1	-	-
Finance lease obligations			1	1	-	-
<b>Total other</b>			<b>2</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Total for loans and borrowings</b>			<b>276</b>	<b>317</b>	<b>274</b>	<b>315</b>

\* As restated to reflect the adoption of IFRS.

**£2,000 million note issuance programme** The Company partakes in a £2,000 million note issuance programme together with 3i Group plc. The Group and 3i Group plc have issued in aggregate £1,094 million (2005: £1,004 million) of notes under this programme which mature either in 2007, 2023 or 2032.

**Committed multi-currency facilities** The Company is able to partake alongside 3i Group plc in the committed multi-currency facilities. The combined drawdowns of the Group and 3i Group plc are as follows:

	2006	2005 (as restated)*
	£m	£m
<b>Committed multi-currency facilities</b>		
£486 million	-	-
£150 million	148	-
£360 million (facility expired)	-	151
€595 million (facility expired)	-	40

\* As restated to reflect the adoption of IFRS.

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

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loan and borrowings is £276 million (2005: £317 million).

### 24 Subordinated liabilities

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

\* As restated to reflect the adoption of IFRS.

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

## 25 Trade and other payables

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Other accruals	124	119	7	8
Amounts due to subsidiaries and fellow subsidiaries	-	-	518	499
	124	119	525	507

\* As restated to reflect the adoption of IFRS.

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

## 26 Provisions

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

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

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

## 27 Issued capital

	2006 Number	2006 £m	2005 Number	2005 £m
<b>Authorised</b>				
Ordinary shares of £1	1,000,000	1	1,000,000	1
<b>Issued and fully paid</b>				
Ordinary shares of £1	1,000,000	1	1,000,000	1

## 28 Equity

	Group 2006 Share capital £m	Group 2006 Other reserves £m	Group 2006 Retained earnings £m	Group 2006 Translation reserve £m	Group 2006 Total £m	Group 2006 Minority interest £m	Group 2006 Total equity £m
Opening balance	1	9	88	6	104	79	183
Total recognised income and expense	-	-	(55)	7	(48)	60	12
Share-based payments	-	8	-	-	8	-	8
Share of new investments	-	-	-	-	-	9	9
Share of distributions	-	-	-	-	-	(41)	(41)
Closing balance	1	17	33	13	64	107	171

Minority interest relates to 3i Group plc's direct minority investments in subsidiary companies of 3i Holdings plc.

	Group 2005 (as restated)*	Group 2005 (as restated)*	Group 2005 (as restated)*	Group 2005 (as restated)*	Group 2005 (as restated)*	Group 2005 (as restated)*	Group 2005 (as restated)*
	Share capital £m	Other reserves £m	Retained earnings £m	Translation reserve £m	Total £m	Minority interest £m	Total equity £m
Opening balance	1	3	1	-	5	41	46
Capital contribution	-	-	60	-	60	-	60
Total recognised income and expense	-	-	27	6	33	55	88
Share-based payments	-	6	-	-	6	-	6
Share of new investments	-	-	-	-	-	7	7
Share of distributions	-	-	-	-	-	(24)	(24)
<b>Closing balance</b>	<b>1</b>	<b>9</b>	<b>88</b>	<b>6</b>	<b>104</b>	<b>79</b>	<b>183</b>

\* As restated to reflect the adoption of IFRS.

	Company 2006 Share capital £m	Company 2006 Retained earnings £m	Company 2006 Total equity £m
Opening balance	1	123	124
Total recognised income and expense	-	(69)	(69)
<b>Closing balance</b>	<b>1</b>	<b>54</b>	<b>55</b>

	Company 2005 (as restated)*	Company 2005 (as restated)*	Company 2005 (as restated)*
	Share capital £m	Retained earnings £m	Total equity £m
Opening balance	1	89	90
Capital contribution	-	60	60
Total recognised income and expense	-	(26)	(26)
<b>Closing balance</b>	<b>1</b>	<b>123</b>	<b>124</b>

\* As restated to reflect the adoption of IFRS.

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

**Other reserves** The other reserve represents the amount in retained earnings in respect of share-based payments.

### 29 Operating leases

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

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

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

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

### 30 Commitments

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Share and loan investments	12	11	-	-

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

## 31 Related parties

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investments, its key management personnel and its immediate and ultimate parent undertaking, 3i Group plc. In addition the Company has related parties in respect of its subsidiaries and its immediate and ultimate parent undertaking, 3i Group plc.

**Limited partnerships** The Group manages funds on behalf of third parties. These funds invest through a number of limited partnerships and the following amounts have been included in respect of these limited partnerships:

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Income statement</b>				
Fund management fees	24	30	-	-

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Balance sheet</b>				
Amount due from limited partnerships	3	4	-	-

\* As restated to reflect the adoption of IFRS.

**Investments** The Group makes minority investments in the equity of unquoted investments. This normally allows the Group to have power to participate in the financial and operating policies decisions of that company. It is presumed that it is able to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties.

The total amounts included for these investments are as follows:

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Income statement</b>				
Realised profit over value on the disposal of investments	18	16	-	1
Unrealised profits on the revaluation of investments	28	41	6	-
Portfolio income	9	3	-	-

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Balance sheet</b>				
Quoted equity investments	4	3	-	-
Unquoted equity investments	148	135	32	-
Loans and receivables	69	51	1	-

\* As restated to reflect the adoption of IFRS.

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

**Key management personnel** The Group's key management personnel comprises the Board of Directors whose emoluments are shown in note 7.

**Management, administrative and secretarial arrangements** The Group has been appointed by 3i Group plc as investment manager and has been appointed to provide 3i Group plc with a range of administrative and secretarial services. The Group receives a fee from 3i Group plc of £126 million (2005: £102 million) for this service.

## 32 Group entities

### Significant subsidiaries

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office
3i International Holdings	England and Wales	2,715,973 shares of £10	Holding	16 Palace Street London SW1E 5JD
3i plc	England and Wales	110,000,000 shares of £1	Services	
3i Investments plc	England and Wales	10,000,000 ordinary shares of £1	Investment manager	
3i Europe plc	England and Wales	500,000 ordinary shares of £1	Investment advisor	
3i Nordic plc	England and Wales	500,000 ordinary shares of £1	Investment advisor	
3i Asia Pacific plc	England and Wales	140,000 ordinary shares of £1	Investment advisor	
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee	
3i Corporation	US	15,000 shares of common stock (no par value)	Investment manager	880 Winter Street Suite 330 Waltham MA 02451, USA
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	Germany	€ 25,564,594	Investment manager	Bockenheimer Landstrasse 55 60325 Frankfurt am Main, Germany
3i Gestion SA	France	200,000 shares of €16	Investment manager	3 rue Paul Cezanne Paris, 75008 France

The list above comprises the principal subsidiary undertakings as at 31 March 2006 all of which were wholly owned. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

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

As at 31 March 2006, the entire issued share capital of all the principal subsidiary undertakings listed above was held by the Company, with the exception of 3i Investments plc, 3i Corporation, 3i Deutschland Gesellschaft für Industriebeteiligungen mbH and 3i Gestion SA. The entire issued share capital of all the other principal subsidiary undertakings listed above was held by subsidiary undertakings of the Company, save that four shares in 3i Gestion SA were held by individuals associated with the Group.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 to the Companies Act 1985 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return.

## 33 Reconciliation of UK GAAP to IFRS for comparative periods

Under IFRS, the "Total recognised income and expense" is the equivalent of "Total recognised gains and losses reported for the year", as reported previously. In order to comply with IFRS 1, a reconciliation of total recognised gains and losses reported for the year to total recognised income and expense is provided below.

	Note	Group 2005 £m	Company 2005 £m
<b>Total recognised gains and losses reported for the year under UK GAAP</b>		82	(60)
IAS 39 - Fair value of derivatives	iv	10	10
IFRS 2 - Share-based payments	v	(6)	-
IAS 39 - Fair value of subsidiaries	vi	-	21
IAS 27 - Minority interest	ii	2	-
IAS 10 - Dividends	vii	-	3
<b>Total recognised income and expense under IFRS</b>		88	(26)

	Note	Group 31 March 2005 £m	Group 1 April 2004 £m	Company 31 March 2005 £m	Company 1 April 2004 £m
<b>Total equity under UK GAAP</b>		186	44	87	87
IAS 39 - Quoted investments	iii	2	2	-	-
IAS 39 - Fair value of derivatives	iv	(14)	(24)	(14)	(24)
IAS 39 - Fair value of subsidiaries	vi	-	-	61	40
IAS 10 - Dividends	vii	-	-	(10)	(13)
IAS 27 - Minority interest	ii	9	24	-	-
<b>Total equity under IFRS</b>		183	46	124	90

### Notes

(i) As part of the conversion to IFRS, the Directors carried out a review of all intercompany agreements with its subsidiaries. Following the review, five subsidiaries were identified in which it was more appropriate to allocate unrealised profits to the minority interest (3i Group plc) rather than to the reserves of the Group. This treatment has been applied to reserves at 31 March 2005 and 31 March 2004. This has no impact on net assets or reported performance in any period.

(ii) Under IFRS, minority interests are not adjusted for in arriving at total recognised income and expense in the year or total equity.

(iii) 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.

(iv) The Group uses derivatives in the form of swaps to manage exposures to interest rates. Under IFRS, these are held at fair value whereas they were held at cost under UK GAAP.

(v) Under UK GAAP, the approach in respect of share-based payments was to record a charge in the income statement 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 the income statement over the vesting period of the instrument. The cost is calculated using pricing methods and applies to all options granted after 7 November 2002 and not vested by 1 January 2005.

(vi) Under IFRS, the Company has elected to designate equity investments in subsidiaries to be assets at fair value through profit and loss. Under UK GAAP these investments were held at cost less provision for impairment.

(vii) Under IFRS, dividends declared by subsidiaries after the balance sheet are not recognised as an asset at the balance sheet date.