

Remuneration report

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

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

Remuneration Committee

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

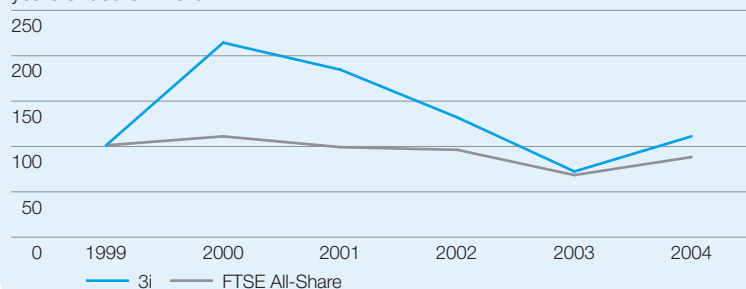
Activities during the year The Committee met seven times during the year to consider remuneration policy and to determine, on behalf of the Board, the specific remuneration packages for each of the executive Directors and all other members of the Chief Executive's management committee (called "Executive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

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

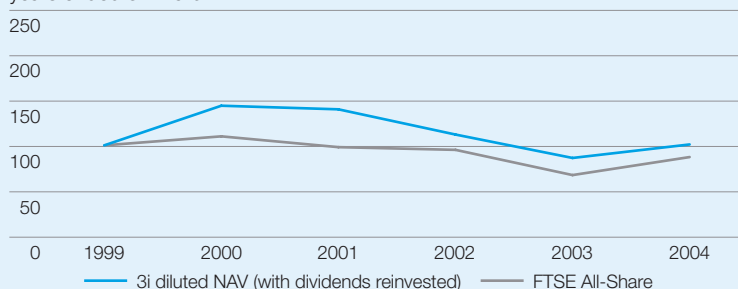
Performance graphs The left hand graph below compares the Company's total shareholder return for the five financial years of the Company to 31 March 2004 with the total shareholder return of the FTSE All-Share index. The Directors consider that since the Company invests in a broad range of industrial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

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

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



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



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

Directors' remuneration policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors' remuneration during the year

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

Notes

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

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

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

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

* Awarded before appointment as a Director.

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

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

Notes

- Options normally only become exercisable if the performance conditions referred to below are met.
- Options granted in 1993 and 1994 were granted under The 3i Executive Share Option Plan (the "1984 Plan") and are normally exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not normally exercisable before the sixth anniversary. These options are normally exercisable only if the net asset value per share on the last day of the financial period ending immediately before the third anniversary of the date of grant or on the last day of any financial period thereafter, is equal to or in excess of the net asset value per share on the date of grant compounded by the respective annual percentage movement in the Retail Prices Index ("RPI").
- Options granted between 1 January 1995 and 31 March 2001 were granted under The 3i Group 1994 Executive Share Option Plan (the "1994 Plan") and are normally exercisable between the third and tenth anniversaries of the date of grant provided that a performance condition has been met over a rolling three year period. This requires that the adjusted net asset value per share (after adding back dividends paid during the three year performance period) at the end of the three year period is equal to or in excess of the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in RPI plus 4%.

Notes continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes

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

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

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

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

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

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

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

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

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

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

* Awarded before appointment as a Director.

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

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

* Awarded before appointment as a Director.

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

By order of the Board

F D Rosenkranz

Chairman, Remuneration Committee

12 May 2004