

Directors' report

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

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

The Inland Revenue has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period ended 31 March 2004. Since that date, the Company has directed its affairs to enable it to continue to be so approved.

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

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

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

Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated by relevant authorities.

Results and dividends The accounts of the Company and the Group for the year to 31 March 2005 appear on pages 49 to 70.

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

By a deed of waiver dated 9 June 1994, Mourant & Co. Trustees Limited as trustee of The 3i Group Employee Trust waived (subject to certain minor exceptions) all dividends declared by the Company after 26 May 1994 in respect of shares from time to time held by it (currently 12,496,297 shares) as trustee of that trust.

Operations The Company owns substantially all the Group's investments. The Group operates through a network of offices throughout Europe, Asia and the US. The Group manages a number of funds established with major institutions and pension funds to make equity and equity related investments in unquoted businesses in Europe and Asia.

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

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

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

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

Major interests in shares As at 3 May 2005, the Company had been notified of the following interests in the Company's shares in accordance with sections 198 to 208 of the Companies Act 1985.

	%	Number of shares
FMR Corporation and Fidelity International Limited and their subsidiary companies	6.83	41,992,415
Prudential plc and subsidiary companies	5.69	34,992,170
Legal & General Group plc	4.01	24,669,259
Scottish Widows Investment Partnership Ltd and other companies within the Lloyds TSB Group of companies	3.90	23,945,591
Barclays PLC	3.00	18,446,811

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

No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' service contracts Details of Directors' employment contracts are set out in the Directors' remuneration report on page 46.

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

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

Management arrangements 3i Investments plc provides the Group with investment management and other services, for which regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

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

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

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

The Board's responsibilities and processes The Board is responsible to shareholders for the overall management of the Group. It determines matters including financial strategy and planning and takes major business decisions.

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

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

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

The Board has put in place an organisational structure. This is further described below under the heading "internal control".

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

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

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

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

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

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

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive has formed a management committee called Executive Committee to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises the executive Directors, the Company Secretary, Ms D R Collis, Mr C P Rowlands, Mr J B C Russell and Mr P Waller. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Senior Independent Director The Board has appointed Mr O H J Stocken as Senior Independent Director, to whom, in accordance with the Combined Code, concerns can be conveyed.

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

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

The Board's discussions, and its approval of the Group's rolling strategic plan and annual budget, provide the non-executive Directors with the opportunity to challenge the Company's management and assist in the development of strategy. The non-executive Directors receive monthly management accounts and regular management reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives. This is further described below under the heading "internal control".

Directors' report (continued)

Directors' independence All the non-executive Directors, including the Chairman, are considered by the Board to be independent for the purposes of the Combined Code. The Board assesses and reviews the independence of each of the non-executive Directors at least annually having regard to the potential relevance and materiality of a Director's interests and relationships rather than applying rigid criteria in a mechanistic manner. The Board has considered Mr O H J Stocken and Mme C J M Morin-Postel's common non-executive directorship of Pilkington plc and concluded that it did not affect their independence.

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

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

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

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

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

The Committee receives regular reports from the internal and external auditors, the regulatory compliance function and Risk Committee, and monitors their activities and effectiveness. The Committee reviews the interim and annual accounts of the Company before their approval by the Board and reviews the scope of the annual audit and any audit findings. The Committee also oversees the Company's relations with its external auditors and recommends to the Board the appointment, reappointment and removal of the Company's auditors and approves the terms of their engagement and their fees. The Committee meets with the heads of the internal audit and compliance functions individually, and the external auditors, at least once a year in the absence of management.

The Committee also reviews the Company's "whistle blowing policy" to ensure that arrangements are in place for staff to raise, in confidence, matters of concern, for an appropriate and independent investigation of such matters and, where necessary, for follow-up action.

During the year, there were four meetings of the Audit and Compliance Committee. The members who served throughout the year attended all four meetings save for Mr F D Rosenkranz who attended three meetings. Since joining the Committee on 29 September 2004, Sir Robert Smith has attended two of the three meetings held. Dr J R Forrest was unable to attend the one meeting held before he ceased to be a Committee member on 7 July 2004.

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

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

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

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

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

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

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

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

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

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

The Valuations Committee considers and recommends to the Board the valuations of the Group's investments to be included in the interim and final accounts of the Group and changes to valuations policy.

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

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

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

Directors' training and development The Company has developed a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a Director of a listed company. All Directors are required to update their skills and maintain their familiarity with the Company and its business continually. Presentations on different aspects of the Company's business are made regularly to the Board. On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment offices and support departments.

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

Performance evaluation The Board has established a formal process, led by the Chairman, for the annual evaluation of the performance of the Board, its principal Committees and individual Directors with particular attention to those who are due for reappointment. A list of questions is drawn up by the Chairman with the assistance of an independent consultant. These questions provide a framework for the evaluation process. The Chairman conducts the annual performance evaluation of each of the Directors, taking into account the views of the other Directors. The Senior Independent Director conducts the annual performance evaluation of the Chairman, taking into account the views of all Directors. The results of the overall evaluation process are discussed with the independent consultant, considered by the Nominations Committee, communicated to the Board and followed up with action as appropriate.

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

The Company's Articles of Association provide for:

- a) Directors to retire at the first Annual General Meeting ("AGM") after their appointment by the Board and for the number nearest to, but not exceeding, one-third of the remaining Directors to retire by rotation at each AGM;
- b) all Directors to retire at least every three years; and
- c) any Director aged 70 or over at the date of the AGM to retire.

Subject to the Articles of Association, retiring Directors are eligible for reappointment.

In accordance with the Articles of Association, at the AGM to be held on 6 July 2005:

- i) Mr S P Ball, Dr P Mihatsch and Sir Robert Smith, having been appointed as Directors since the AGM in 2004, will retire and, being eligible, offer themselves for reappointment; and
- ii) Mr R W Perry, Mr F G Steingraber and Mr O H J Stocken will retire by rotation and, being eligible, Mr F G Steingraber and Mr O H J Stocken offer themselves for reappointment. On 20 December 2004, the Company announced that Mr R W Perry would be retiring at the AGM on 6 July 2005.

The Board's recommendation for reappointment of Directors is set out in the Notice of the AGM.

Relations with shareholders The Board recognises the importance of maintaining a purposeful relationship with all its shareholders. The Chief Executive and the Finance Director, together with the Group Communications Director, meet with the Company's principal institutional shareholders to discuss relevant issues as they arise. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. During the year, at the invitation of the Chairman, the Company's major shareholders met with the Chairman, Deputy Chairman, Company Secretary and Finance Director to discuss matters of corporate governance and corporate responsibility relevant to the Company and its shareholders.

In addition to receiving regular reports from the Company's brokers, the brokers make presentations to the Board and have private discussions with the non-executive Directors. Non-executive Directors are invited to attend the Company's presentation to analysts and offered the opportunity to meet shareholders. During the year, a formal survey of the perceptions of the Company's major shareholders was carried out by independent consultants on behalf of the Company. The results of this survey were considered by the Board. Through involvement in the interim and full year reporting process, the Company's results presentations and the Company's Annual General Meeting, the Chairman ensures effective communication with the Company's shareholders.

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

The Notice of the AGM held on 7 July 2004 was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, details of proxy votes received (including the number of abstentions) were disclosed in accordance with the recommendations of the Combined Code. These details were subsequently made available on the Company's website. In accordance with the Company's Articles of Association, on a poll, every member who is present in person or by proxy has one vote for each share held.

Directors' report (continued)

Portfolio management and voting policy In relation to unquoted investments, the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts. In relation to quoted investments, the Group's policy is to exercise voting rights on matters affecting the interests of the Group.

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

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

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

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

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

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

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

In line with Group policy, no donations were made to political parties during the year. Under the Companies Act 1985, as amended, the Company is required to disclose particulars of any donation to any EU political organisation and EU political expenditure incurred during the year. During the period, 3i plc, the main trading company of the Group, made payments to three organisations, detailed below, which may fall within the definition of donations to EU political organisations. These payments (annual subscriptions to the Industry Forum of £3,084, the Enterprise Forum of £1,880 and the Federal Trust of £300) amounted to £5,264.

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

Statement of Directors' responsibilities The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the period and of the profit for the period. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Suitable accounting policies, which follow generally accepted accounting practice and are explained in the notes to the accounts, have been applied consistently and applicable accounting standards have been followed. In addition, reasonable and prudent judgments and estimates have been used in the preparation of the accounts.

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

Internal control The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised Committees for decision, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Each year, the Board considers and approves a rolling strategic plan and an annual budget. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

Risk Committee is a management committee formed by the Chief Executive whose purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year ended 31 March 2005 and up to the date of this report. The process is regularly reviewed by the Board and complies with the internal control guidance for Directors on the Combined Code, issued by the Turnbull Committee. The process established for the Group includes:

Policies

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

Processes

- appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities;
- a planning framework which incorporates a Board approved rolling strategic plan, with objectives for each business unit;
- formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas, set control, mitigation and monitoring procedures and review actual occurrences identifying lessons to be learnt;
- a comprehensive system of financial reporting to the Board, based on an annual budget with monthly reports against actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting;
- regular treasury reports to the Board, which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to interest and exchange rate movements and record the level of compliance with the Group's funding objectives;
- a compliance department whose role is to integrate regulatory compliance procedures into the Group's systems;
- well defined procedures governing the appraisal and approval of investments including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post investment reviews;

Verification

- an internal audit department which undertakes periodic examination of business units and processes and recommends improvements in controls to management;
- the external auditors who are engaged to express an opinion on the annual accounts;
- an Audit and Compliance Committee which considers significant control matters and receives reports from the internal and external auditors and the regulatory compliance function on a regular basis.

The internal control system is monitored and supported by an internal audit function which operates on an international basis and reports to management and the Audit and Compliance Committee on the Group's operations. The work of the internal auditors is focused on the areas of greatest risk to the Group determined on the basis of the Group's risk management process. The external auditors independently and objectively review the approach of management to reporting operating results and financial condition. In coordination with the internal auditors, they also review and test the system of internal financial control and the information contained in the Report and accounts to the extent necessary for expressing their opinion.

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

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

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

Details of the fees paid to the auditors are disclosed in note 13 to the accounts on page 59.

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

By order of the Board

A W W Brierley
Secretary

11 May 2005

Registered Office
91 Waterloo Road
London SE1 8XP