# Directors' remuneration report

**Remuneration Committee**

***Composition and terms of reference*** The Company's Remuneration Committee (the "Committee") comprises only independent non-executive Directors. Its members during the year to 31 March 2005 (the "year") were Mr F D Rosenkranz (the Committee Chairman), Dr J R Forrest (who ceased to be a member on 7 July 2004), Mme C J M Morin-Postel, Mr O H J Stocken and, following their appointments to the Committee on 29 September 2004, Dr P Mihatsch and Mr F G Steingraber. Dr Mihatsch ceased to be a member on 31 March 2005 and Sir Robert Smith was appointed with effect from 1 April 2005. None of the members of the Committee sits with any executive Director on the board of any other quoted company. The Committee's terms of reference take into account the provisions of the Combined Code on corporate governance and are available on the Company's website.

***Activities during the year*** The Committee met six times during the year to consider remuneration policy and to determine, on behalf of the Board, the specific remuneration packages for each of the executive Directors and the other members of the Chief Executive's management committee (called "Executive Committee"). The Committee also determined the fees payable to the Chairman of the Board. 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.

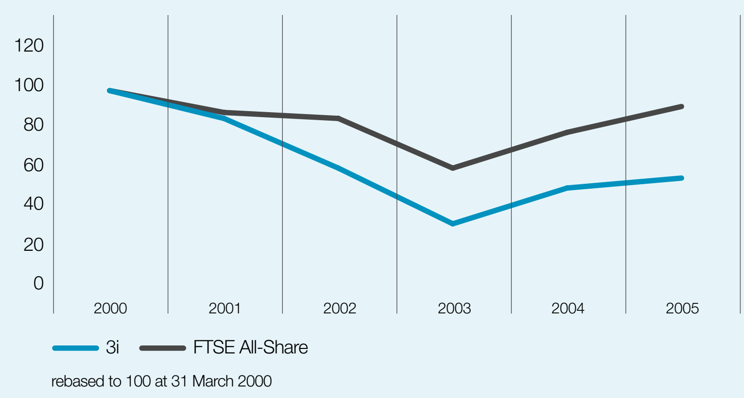
***Assistance to the Committee*** Persons who materially assisted the Committee with advice on Directors' remuneration in the year were: PricewaterhouseCoopers LLP ("PwC"), an external remuneration consultant appointed by the Committee; the Chairman of the Board, Baroness Hogg; following his appointment on 7 July 2004, the Chief Executive, Mr P E Yea; and until his retirement from the Board on 7 July 2004, the former Chief Executive, Mr B P Larcombe. Baroness Hogg, Mr B P Larcombe and Mr P E Yea did not advise the Committee in relation to their own remuneration. During the year, PwC provided the Group's businesses with taxation, payroll and valuation advice, due diligence services, property services, and services of an employee on secondment.

***Market background*** The Company operates within the private equity and venture capital sector and is a constituent of the FTSE 100 Index. 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. The private equity and venture capital market continues to be well funded and the ability of trained and experienced executives to gain substantial rewards in the industry remains. As a consequence, maintaining a remuneration structure to support the recruitment and retention of senior executives continues to be challenging. In addition to cash bonuses and share awards, it is market practice for investment executives in the private equity and venture capital market to be 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 background that the Committee has continued to implement the policies formulated last year to enable the Company to continue to attract, retain and motivate management of the quality required and thereby 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 with the interests of shareholders and investors in funds managed by the Group on behalf of third parties. The way in which this is achieved is by allowing investment executives to participate in carried interest arrangements and by encouraging the holding of the Company's shares by its staff.

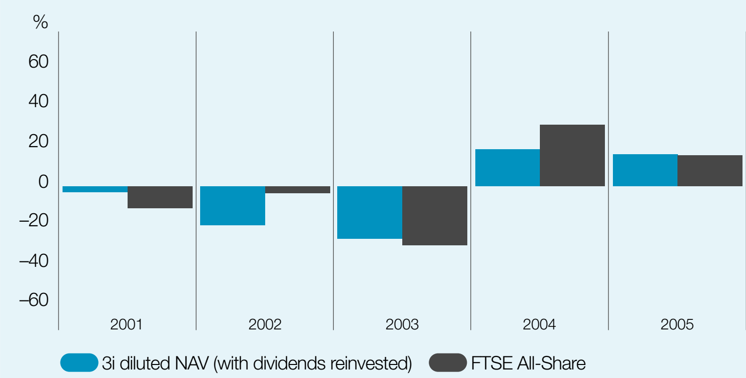
**Performance graphs** The left hand graph below compares the Company's total shareholder return for the five financial years to 31 March 2005 with the total shareholder return of the FTSE All-Share Index. The Directors consider that since the Company invests in a broad range of industrial and commercial sectors, the FTSE All-Share Index is the most appropriate index against which to compare the Company's performance, although as the Company is a constituent of the FTSE 100 Index, performance compared with that index is also relevant.

The right hand chart below compares percentage changes in the Company's diluted net asset value per share over each of the last five financial years (with dividends reinvested) against the total shareholder return of the FTSE All-Share Index over the same periods. 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) for the years ended 31 March




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




**Audit** The tables in this report (including the notes thereto) on pages 42 to 47 have been audited by Ernst & Young LLP.

**Directors' remuneration policy**

No major changes in remuneration structure have been decided by the Committee over the year. However, in the light of market evidence and consultation with shareholders, the Committee has decided, in respect of the coming year, to reduce the proportion of share options vesting if net asset value per share with dividends reinvested rises by RPI plus three percentage points per annum over the three year performance period from 50% to 30%. The Committee has also decided to increase the target bonus for the coming year for the Director responsible for Growth Capital investment from 90% to 100% of base salary.

***Non-executive Directors*** The Company's policy for the financial year ending 31 March 2006 (the "coming 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 are not eligible for bonuses, share options, long-term incentives, pensions or performance related remuneration. The Company does not currently expect its policy on non-executive Directors' remuneration for subsequent financial years to change significantly. Non-executive Directors' fees (other than those of the Chairman, which are determined by the Committee) are regularly reviewed and determined by the Board as a whole, within the limits set by the Company's Articles of Association, having taken advice from PwC. During the year the basic non-executive Director's fee was £36,000 per annum, the annual fee for Committee membership was £2,000 and the annual fee for Committee Chairmanship was £7,500.

***Executive Directors*** The Company's policy for the coming year in relation to executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executive Directors of the calibre required. The variable elements of each executive Director's remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) are intended to form a significant component of the executive Director's total remuneration package. In particular, the base 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 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 to the executive Directors which are competitive with other FTSE 100 companies and companies in the financial services sector. The Company will review its pension arrangements in the light of the Government's proposed legislative changes and will report on the outcome of this review in the 2006 Directors' remuneration report.

*(a) Salaries* The Committee is sensitive to wider issues including pay and employment conditions elsewhere in the Group when setting executive Directors' pay levels and takes into account the Company's reward strategy generally, before deciding specific packages for the executive Directors. The table below provides details of the percentage increases in average base salaries per annum for members of Executive Committee (including executive Directors) and other executive staff in the UK in the period from 31 March 2004 to 31 March 2005.

| | % increase from 31 March 2004 to 31 March 2005 |
|---|---|
| Executive Committee (including executive Directors) | 2.61% |
| Other UK executive staff | 5.63% |

*Chief Executive and Finance Director* The Company's policy in the coming year in relation to the remuneration packages of the Chief Executive and Finance Director is to pay salaries and benefits comparable to those paid by other FTSE 100 companies of similar market capitalisation including financial sector companies. Salary supplements are paid to Mr P E Yea and Mr S P Ball to enable them personally to make additional pension provision.

*Directors responsible for investment business* The Company's policy in the coming year in relation to the remuneration packages of Directors with responsibility for investment business is to provide remuneration and other benefits comparable to those paid in the private equity and venture capital industry. In the coming year this policy will apply to Mr M J Queen who assumed responsibility for Growth Capital investment on 1 April 2005.

To ensure the Company's remuneration policies are competitive with arrangements in the private equity and venture capital industry, the Committee may offer executive Directors with responsibility for investment business the opportunity to participate in carried interest arrangements as approved by shareholders in 2004.

*(b) Annual bonuses* All employees, including executive Directors, are eligible for non-pensionable discretionary annual bonuses. The Committee determines target bonuses for each executive Director at the beginning of each year based on appropriate market comparators. These target bonuses are achievable if both corporate performance targets and personal performance targets are met. In the case of Directors with responsibility for investment business, the target bonus also depends on the objectives of the business units for which the Director is responsible being met and, consistent with its policy, is intended to be competitive with arrangements in the private equity and venture capital industry. Bonuses above target level will be granted only for outstanding performance. The maximum bonus achievable will be twice the target bonus. Any bonuses above 1.5 times target will be in the form of shares deferred for two years and the Committee may decide that a higher proportion of bonus should be paid in deferred shares.

The Committee retains discretion to make adjustments to bonus arrangements in appropriate circumstances.

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

– 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 private equity and 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.

During the year ended 31 March 2005, the target bonuses for the executive Directors were 90% of base salary. After reviewing the performance measures referred to above, the Committee awarded bonuses to executive Directors, in respect of the year, ranging from nil to 120% of their base salaries. Bonuses above 100% of base salary will be in the form of deferred shares, except in the case of Mr R W Perry who is to retire at the 2005 Annual General Meeting. The Committee has set target bonuses for the year to 31 March 2006 for the Chief Executive and Finance Director at 90% of base salary, the same as last year, and for the executive Director responsible for Growth Capital investment at 100% of base salary.

***(c) Long-term incentives*** The Committee determines the levels of long-term incentives and carried interest to be granted to executive Directors. In the coming year long-term incentive arrangements for executive Directors are expected to consist of share options and performance share awards under The 3i Group Discretionary Share Plan ("the Discretionary Share Plan"). Executive Directors with responsibility for investment business will also be eligible to participate in carried interest arrangements as approved by shareholders in 2004.

*The Discretionary Share Plan* The Company operates a shareholder approved executive share plan, which conforms with the Association of British Insurers' guidelines on dilution limits. Awards under this plan are not pensionable. The level of annual awards is reviewed each year taking into account market practice, an assessment of individual performance and the specific circumstances facing the Company. The maximum annual level of award is six times salary if granted in share options or its equivalent fair value in performance shares. During the year, a performance share was calculated as having a fair value of 1.75 times the value of a share option. The relative fair values of these awards are kept under review by the Committee. Based on the advice of the Committee's independent consultant and on the performance conditions proposed to be attached to performance shares and share options in respect of the coming year, a performance share has been calculated as having a fair value of 1.90 times the value of a share option. 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.

Details of the performance targets for options granted under the Discretionary Share Plan before 1 April 2005 are set out in note 3 on page 43. The Committee proposes to set a performance condition for share option awards to be made with respect to the coming year that would result in 30% of options vesting if net asset value per share with dividends reinvested 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 per annum. Between those two levels the options will vest on a pro rata basis. This performance condition will not be retested.

***Carried interest plans*** At the Company's Annual General Meeting ("AGM") on 7 July 2004, shareholders approved the participation of executive Directors with responsibility for investment business in the carried interest plans established for the Group's investment executives. The Chief Executive and the Finance Director are not eligible to participate in these plans. Decisions in relation to the participation of an executive Director are taken by the Committee taking into account market practice and the investment responsibilities of the executive Director concerned. Individual executive Directors participate in carried interest plans through the allocation to them of a specified percentage of Capital Working. Capital Working in a particular carried interest plan, is the target carried interest rate multiplied by the aggregate amount invested by the Company (including funds under its management) in a specific pool of investments made over a specific period (usually two years) by the team of investment executives responsible for those investments. The target carried interest rate to be delivered through individual carried interest plans may vary but in no case will exceed 15% of the relevant Capital Working. Participation in the profits made on a pool of investments through the allocation of carried interest is dependent on the performance of the underlying investments as a whole and the satisfaction of a performance condition which is determined in advance by the Committee, in line with relevant market conditions at the time of award. Awards under these plans are not pensionable.

No awards were made to executive Directors during the year.

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

**Directors’ remuneration during the year**

| | Salary and fees £’000 | (Note1) Salary supplements £’000 | Total salary, fees and supplements £’000 | (Note 2) Bonus £’000 | (Note 3) Deferred share bonus £’000 | (Note 4) Benefits in kind £’000 | (Note 5) Pay in lieu of notice £’000 | Total remuneration Year to 31 March 2005 £’000 | Total remuneration Year to 31 March 2004 £’000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| P E Yea (appointed 7 July 2004) | *449* | *147* | 596 | 450 | 90 | 1 | | 1,137 | – |
| S P Ball (appointed 7 February 2005) | *59* | *9* | 68 | 60 | | | | 128 | – |
| R W Perry | *344* | | 344 | 400 | | 17 | | 761 | 677 |
| M J Queen | *402* | | 402 | 400 | 80 | 2 | | 884 | 726 |
| **Non-executive Directors** | | | | | | | | | |
| Baroness Hogg | *220* | | 220 | | | | | 220 | 220 |
| O H J Stocken | *83* | | 83 | | | | | 83 | 75 |
| Dr P Mihatsch (appointed 7 September 2004) | *21* | | 21 | | | | | 21 | – |
| C J M Morin-Postel | *40* | | 40 | | | | | 40 | 34 |
| F D Rosenkranz | *48* | | 48 | | | | | 48 | 37 |
| Sir Robert Smith (appointed 7 September 2004) | *22* | | 22 | | | | | 22 | – |
| F G Steingraber | *37* | | 37 | | | | | 37 | 30 |
| **Former Directors** | | | | | | | | | |
| *Dr J R Forrest (until 7 July 2004)* | *11* | | 11 | | | | | 11 | 48 |
| *M M Gagen (until 23 August 2004)* | *127* | | 127 | | | 4 | 194 | 325 | 687 |
| *B P Larcombe (until 7 July 2004)* | *162* | | 162 | | | 1 | 274 | 437 | 1,131 |
| **Total** | *2,025* | *156* | 2,181 | 1,310 | 170 | 25 | 468 | 4,154 | 3,665 |

***Notes***

1 Mr P E Yea and Mr S P Ball’s remuneration packages included salary supplements intended to enable them to make additional pension provision.
2 Bonuses relate to the year to 31 March 2005 and are expected to be paid in June 2005.
3 Deferred share bonus awards will be made over shares in the Company to the value shown, deferred for two years.
4 “Benefits in kind” comprised company car (Mr R W Perry) and health insurance (Mr P E Yea, Mr S P Ball, Mr R W Perry, Mr M J Queen, Mr B P Larcombe and Mr M M Gagen).
5 After ceasing to be a Director on 7 July 2004, Mr B P Larcombe remained an employee until 30 September 2004. During that period, in addition to the amount shown above, Mr B P Larcombe was paid salary and benefits totalling £136,843. During the year, Mr Gagen was paid the amount of £193,676 shown in the column headed “Pay in lieu of notice” in accordance with his employment contract, being a sum equal to his base salary for the period from 23 August 2004 to 31 March 2005. In addition, during the year and after 23 August 2004, Mr M M Gagen received benefits in kind amounting to £1,007.
6 During the year, whilst serving as Directors of the Company, executive Directors retained fees from outside directorships as follows: Mr P E Yea, £8,942 (Manchester United plc); Mr S P Ball, £5,808 (Leica Geosystems AG); Mr M J Queen, £8,375 (Northern Rock plc); and Mr B P Larcombe, £9,692 (Smith & Nephew plc).
7 Mr W J R Govett, a former Director, was paid £8,000 as a director of Gardens Pension Trustees Limited, one of the trustees of the 3i Group Pension Plan.

***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 2004 (or appointment if later) | Granted during the year | Exercised during the year | Held at 31 March 2005 (or cessation if earlier) | Exercise price £ | Market price on date of exercise £ | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| P E Yea (appointed 7 July 2004) | 2004 | – | *314,410* | – | ***314,410*** | *5.73* | | *21.07.07* | *20.07.14* |
| | | – | *314,410* | – | ***314,410*** | | | | |
| R W Perry | 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* |
| | *2004* | | *40,422* | – | ***40,422*** | *6.03* | | 23.06.07 | *22.06.14* |
| | | 480,768 | *40,422* | | **521,190** | | | | |

### *Options to subscribe for shares (continued)*

| | Year of grant | Held at 1 April 2004 (or appointment if later) | Granted during the year | Exercised during the year | Held at 31 March 2005 (or cessation if earlier) | Exercise price £ | Market price on date of exercise £ | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| M J Queen | 1994 | 4,000*# | | 4,000 | **–** | 2.72 | 6.295 | 22.06.97 | 21.06.04 |
| | 1995 | 1,800* | | 1,800 | **–** | 3.61 | 6.295 | 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* |
| | *2004* | | *89,552* | – | ***89,552*** | *6.03* | | *23.06.07* | *22.06.14* |
| | | 568,233 | *89,552* | 5,800 | **651,985** | | | | |
| *B P Larcombe (until 7 July 2004)* | 1995 | 20,600 | | – | **20,600** | 4.23 | | 14.12.98 | 30.09.05 |
| | 1996 | 98,200 | | – | **98,200** | 4.50 | | 25.06.99 | 30.09.05 |
| | 1997 | 99,802 | | – | **99,802** | 5.20 | | 16.06.00 | 30.09.05 |
| | 1998 | 72,209 | | – | **72,209** | 6.64 | | 22.06.01 | 30.09.05 |
| | *1999* | *45,654* | | – | ***45,654*** | *7.28* | | *06.07.02* | *30.09.05* |
| | *2000* | *25,272* | | – | ***25,272*** | *13.75* | | *28.06.03* | *30.09.05* |
| | *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* |
| | | 981,104 | – | – | **981,104** | | | | |
| *M M Gagen (until 23 August 2004)* | 1994 | 5,000* | | 5,000 | **–** | 2.72 | 6.185 | 22.06.00 | 21.06.04 |
| | 1998 | 30,454 | | – | **30,454** | 6.64 | | 22.06.01 | 31.08.05 |
| | *1999* | *9,006* | | – | ***9,006*** | *7.28* | | *06.07.02* | *31.08.05* |
| | *2000* | *24,106* | | – | ***24,106*** | *13.56* | | *03.07.03* | *31.08.05* |
| | | 68,566 | – | 5,000 | **63,566** | | | | |

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.

### *Notes*

1 Options granted in 1994 were granted under The 3i Executive Share Option Plan (the "1984 Plan") and were exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not exercisable before the sixth anniversary. These options were 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, was 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").

2 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 the RPI plus 4%.

3 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 2004, 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 after 31 March 2004, there is no opportunity for the performance condition to be retested after the three year performance period.

The performance target applicable to options granted between 1 April 2001 and 31 March 2004 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 RPI | 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% |

The performance target applicable to options granted between 1 April 2004 and 31 March 2005 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 RPI | Percentage of the grant vesting |
|---|---|
| Below RPI + 3 percentage points | 0% |
| At least RPI + 3 percentage points | 50% |
| At levels of performance between RPI + 3 percentage points and RPI + 8 percentage points the grant will vest pro rata | |
| At least RPI + 8 percentage points | 100% |

***Notes (continued)***

4 These performance conditions are based on increases in net asset value per share so as to enable a significant proportion of executive Directors' potential remuneration to be linked to an increase in the assets per share of the Company. The intention has been to approximate to the performance conditions attached to carried interest schemes in the private equity and venture capital market whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The minimum and maximum targets for options were chosen as being appropriately demanding in the prevailing market conditions at the time. The Committee determines whether the performance conditions have been fulfilled on the basis of calculations which are independently reviewed by the Company's auditors. These performance conditions require net asset value per share at the beginning and end of the performance period to be calculated on a consistent basis using the same accounting policies. To the extent that accounting policies have altered over a performance period, the Company has the power to make appropriate adjustments to the calculations of net asset value per share to ensure that changes in accounting policies neither advantage nor disadvantage option holders.

5 Options granted to Mr R W Perry in 2003 were pro-rated on grant 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.

6 For US legal and regulatory reasons, in 2001 Mr M M Gagen was granted the 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) detailed below on the same terms and conditions as share options granted to other Directors in that year.

| | Held at 1 April 2004 | Granted during the period | Exercised during the period | Held at 23 August 2004 | Exercise price £ | Market price on date of exercise | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| *M M Gagen (until 23 August 2004)* | 114,000 | – | – | 114,000 | 10.00 | – | 09.08.04 | 08.08.11 |

On Mr M M Gagen ceasing to be an employee on 31 August 2004, the exercise period was altered so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date.

7 On Mr B P Larcombe ceasing to be an employee on 30 September 2004, the exercise periods of the options granted to him in 1995 to 2000 were altered in accordance with the rules of the 1994 Plan so as to expire on 30 September 2005 and the exercise periods of the options granted to him in 2001 to 2003 were altered in accordance with the rules of the Discretionary Share Plan so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date. On Mr M M Gagen ceasing to be an employee on 31 August 2004 the exercise periods of the options granted to him in 1998 to 2000 were altered in accordance with the rules of the 1994 Plan so as to expire on 31 August 2005.

8 The mid-market price of shares in the Company at 31 March 2005 was 671.5p and the range during the period 1 April 2004 to 31 March 2005 was 528p to 731p. The aggregate 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 46 and 47) was £318,380 (2004: £1,122,425). The amount attributable to the highest paid Director during the year was £nil (amount attributable to the highest paid Director (Mr B P Larcombe) in 2004: £239,729). 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.

9 The fair value of the share options granted during the year has been calculated as being 26% of the market value at the date of grant of the shares under option.

10 As at 31 March 2005 there were approximately 2.4 million shares available under the 5% dilution limit applicable to the Discretionary Share Plan arising from the guidelines issued by the Association of British Insurers and approximately 30 million shares available under the 10% dilution limit arising from those guidelines applicable to "all employee" plans. In addition, approximately 5 million unallocated shares were held in an employee trust and were available for awards under the Discretionary Share Plan.

***Performance Share Awards*** 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. These conditions were 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 these conditions have been met based on calculations prepared by the Committee's remuneration consultant. The table below provides details of performance share awards held by the Directors who held office during the year.

| | Held at 1 April 2004 (or appointment if later) | Granted during the year | Vested during the year | Held at 31 March 2005 (or cessation if earlier) | Market price on date of grant £ | Date of vesting |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| P E Yea (appointed 7 July 2004) | – | 179,663 | – | 179,663 | 5.73 | 21.07.07 |
| | – | 179,663 | – | 179,663 | | |
| R W Perry | 26,408 | | – | 26,408 | 5.56 | 24.06.06 |
| | | 23,098 | – | 23,098 | 6.03 | 23.06.07 |
| | 26,408 | 23,098 | – | 49,506 | | |
| M J Queen | 42,913 | | – | 42,913 | 5.56 | 24.06.06 |
| | | 89,552 | – | 89,552 | 6.03 | 23.06.07 |
| | 42,913 | 89,552 | – | 132,465 | | |
| *B P Larcombe (until 7 July 2004)* | 75,264 | – | – | 75,264 | 5.56 | 24.06.06 |
| | 75,264 | – | – | 75,264 | | |

***Notes***

1 Performance shares awarded to Mr R W Perry in 2003 were pro-rated on grant 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.

2 On Mr B P Larcombe ceasing to be an employee on 30 September 2004, 37,632 of the performance shares held by him were forfeited. The remaining 37,632 performance shares remain subject to the original performance condition.

3 The fair value of the performance shares awarded during the year has been calculated as being 46% of the market value of shares at the date of award.

***Share Incentive Plan*** Eligible UK employees, including executive Directors, may participate in an Inland Revenue approved Share Incentive Plan intended to encourage employees to invest in the Company's shares and which accordingly is not subject to a performance condition. During the year participants could invest up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company granted two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than by reason of retirement) within three years of grant. Dividends are 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 2004 (or appointment if later) Partnership shares | Held at 1 April 2004 (or appointment if later) Matching shares | Held at 1 April 2004 (or appointment if later) Dividend shares | Held at 31 March 2005 (or cessation if earlier) Partnership shares | Held at 31 March 2005 (or cessation if earlier) Matching shares | Held at 31 March 2005 (or cessation if earlier) Dividend shares |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| P E Yea (appointed 7 July 2004) | – | – | – | 92 | 184 | – |
| R W Perry | 545 | 1,090 | 33 | 785 | 1,570 | 78 |
| M J Queen | 529 | 1,058 | 31 | 769 | 1,538 | 74 |
| *B P Larcombe (until 7 July 2004)* | 545 | 1,090 | 33 | 606 | 1,212 | 33 |

***Note*** Since 31 March 2005, Mr P E Yea and Mr R W Perry have each acquired a further 20 partnership shares and have been awarded a further 40 matching shares and Mr M J Queen has acquired a further 19 partnership shares and has been awarded a further 38 matching shares. During the year, shares were awarded at prices between 564.17p and 694p per share and with an average price of 625p 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, 99% of UK employees belonged. For members who joined the plan before 1 September 2002, the plan provides for a pension, subject to Inland Revenue limits, of two thirds of final pensionable 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. For members who joined the plan on or after 1 September 2002 (which include Mr P E Yea and Mr S P Ball) 33.3 years' service is required to accrue a pension of two thirds of final pensionable salary (limited to the Earnings Cap where this applies). The plan also provides death-in-service cover of four times final pensionable salary (limited to the Earnings Cap where this applies), pensions payable in the event of ill health and spouses' pensions on death. Further details of the plan are set out in note 12 to the accounts on page 58.

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 per annum of pension by the actuaries. The value placed on £1 per annum of pension reflects financial conditions at the time (eg the level of the stock market or returns available on government bonds) and the method and assumptions they use to calculate transfer values from time to time. Changes in the value placed on £1 per annum of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

| | (Note 1) Age at 31 March 2005 | (Note 1) Complete years of pensionable service at 31 March 2005 | (Note 1 and 2) Increase in accrued pension (excluding inflation) during the year to 31 March 2005 £'000 p.a. | (Note 1 and 3) Total accrued pension at 31 March 2005 £'000 p.a. | (Note 1) Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2005 £'000 | (Note 1 and 2) Increase in accrued pension (including inflation) during the year to 31 March 2005 £'000 p.a. | (Note 4) Transfer value of the accrued benefits at 31 March 2005 £'000 | (Note 5) Transfer value of the accrued benefits at 31 March 2004 £'000 | Difference between transfer values at start and end of the accounting year, less Director's contribution £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| P E Yea | 50 | 0 | 1.5 | 1.5 | 3.8 | 1.5 | 18.1 | – | 14.3 |
| S P Ball | 44 | 0 | 0.3 | 0.3 | 0.9 | 0.3 | 3.1 | – | 2.3 |
| R W Perry | 59 | 19 | 16.7 | 181.0 | 7.8 | 21.7 | 4,076.7 | 3,283.9 | 785.1 |
| M J Queen | 43 | 17 | 22.8 | 184.6 | 8.8 | 27.7 | 1,613.7 | 1,331.4 | 273.5 |
| *B P Larcombe (until 7 July 2004)* | 51 | 30 | (165.0) | 263.5 | 5.9 | (158.5) | 6,085.2 | 5,274.5 | 804.8 |
| *M M Gagen (until 23 August 2004)* | 48 | 19 | 1.4 | 163.3 | 2.6 | 3.4 | 1,920.0 | 1,786.3 | 131.1 |

***Notes***

1 In the cases of Mr B P Larcombe and Mr M M Gagen, 30 September 2004 and 31 August 2004, respectively, being the dates that they left pensionable service.

2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60 except in the case of Mr B P Larcombe. For Mr B P Larcombe, the figure shown is the difference between the amount of immediate pension granted to him on his retirement and the amount of the deferred pension to which he would have been entitled if he had left on 31 March 2004. The pension is calculated including three months' service whilst not a Director.

3 The pensions shown, except for Mr B P Larcombe, are deferred pensions payable from age 60. Mr B P Larcombe's figure is the immediate pension granted on his retirement.

4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2005 (Actuarial Guidance Note GN11 (version 9.1)) and in the case of Mr B P Larcombe reflect the benefits due to be paid after 31 March 2005 only and therefore excludes actual benefits received.

5 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2004 (Actuarial Guidance Note GN11 (version 9.1)).

6 Additional voluntary contributions are excluded from the above table.

7 The pensions shown above become payable at a Normal Retirement Age of 60. Certain members have guaranteed early retirement rights in order to comply with EC sex equality requirements. In the figures given above, the value of these rights has been converted into extra deferred pension of equal value to these rights. On early retirement from active membership of the plan, there is a discretionary practice of calculating the early retirement pension by applying a reduction factor less than the standard factor, in accordance with Company policy. This is not available to deferred pensioners and no allowance for it is made in the calculations of cash equivalents for deferred pensioners under the plan.

Deferred pensions in excess of the guaranteed minimum pension ("GMP") are increased in the deferment period according to statutory requirements (subject to an annual minimum of 3% per annum on pension accrued prior to 1 July 2004 for those members who joined the plan before 7 February 1992). GMPs are increased at fixed rate revaluation with increases vesting at Normal Retirement Age. For members who joined the plan before 1 September 2002, pensions in respect of service before 1 July 2004 and in excess of the GMP increase each year in payment to match the increase in the RPI since the pension started (or 30 June 1989, if later), subject to an annual maximum of 7.5% per annum and a minimum of 3% per annum. Pensions for members who joined the plan after 1 September 2002 and pension in respect of service on or after 1 July 2004 for members who joined the plan before 1 September 2002, increase each year in payment to match the RPI subject to a maximum increase in any year of 7.5% and a minimum of 0%. On death in deferment or after retirement, a two-thirds pension is payable to the member's spouse. Dependants' pensions may be payable in the absence of a spouse's pension. In addition, on death within the first five years of retirement, a lump sum is payable equal to the balance of five years' pension.

**Directors' service contracts** 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.

Mr P E Yea and Mr S P Ball have contracts of employment with 3i plc dated 27 July 2004 and 19 April 2005 respectively. Mr M J Queen and Mr R W Perry have contracts of employment with 3i plc dating from their first employment with the Group being 22 June 1987 and 1 July 1985. All of these contracts are terminable by 12 months' notice given by the Company or six months' notice given by the employee. Save for these notice periods the contracts have no unexpired terms. On termination of employment the Company can elect to give pay in lieu of notice. In the case of Mr Yea, the Company can also elect to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment.

Until 30 September 2004, Mr B P Larcombe had an employment contract with 3i plc dating from his first employment by the Group on 23 September 1974 which was terminable by 12 months' notice given by the Company or six months' notice given by Mr Larcombe. The contract contained no provision for compensation on early termination, save that the Company could elect to give pay in lieu of notice.

Until the cessation of his employment on 31 August 2004, Mr M M Gagen had an employment contract with 3i Corporation dated 12 July 2000. In line with US market practice this contract required him to give six months' notice. It could, however, be terminated by 3i Corporation without notice, although for termination without cause Mr Gagen was entitled to continue to receive his base salary for 12 months following the cessation of employment.

The Committee considers that compensation payments on early termination of employment should depend on individual circumstances. The duty of Directors to mitigate their loss will always be a relevant factor.

**Historic awards** This section of the Directors' remuneration report gives details of historic awards held by Directors under the Management Equity Investment Plan and the US carried interest plans.

***Deferred share bonuses under the Management Equity Investment Plan*** Under the Management Equity Investment Plan, until 31 March 2001 executives could be awarded 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 being granted 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 2004 | Granted during the year | Exercised during the year | Held at 31 March 2005 (or cessation if earlier) | Exercise price £ | Market price on date of exercise £ | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| R W Perry | 1998 | 6,787* | – | – | 6,787 | 6.63 | | 15.06.01 | 14.06.05 |
| | 2000 | 5,819 | – | – | 5,819 | Nil | | 28.06.03 | 27.06.07 |
| | 2001 | 3,600 | – | – | 3,600 | Nil | | 09.08.04 | 08.08.08 |
| | | 16,206 | – | – | 16,206 | | | | |
| M J Queen | 1998 | 8,144 | – | – | 8,144 | 6.63 | | 15.06.01 | 14.06.05 |
| | 1999 | 8,333 | – | 8,333 | – | Nil | 5.725 | 23.07.02 | 22.07.06 |
| | 2000 | 6,668 | – | 6,668 | – | Nil | 5.725 | 28.06.03 | 27.06.07 |
| | 2001 | 4,000 | – | 4,000 | – | Nil | 5.725 | 09.08.04 | 08.08.08 |
| | | 27,145 | – | 19,001 | 8,144 | | | | |
| *B P Larcombe (until 7 July 2004)* | 1998 | 12,443 | – | – | 12,443 | 6.63 | | 15.06.01 | 14.06.05 |
| | 1999 | 13,681 | – | – | 13,681 | Nil | | 23.07.02 | 30.09.05 |
| | 2000 | 9,699 | – | – | 9,699 | Nil | | 28.06.03 | 30.09.05 |
| | 2001 | 6,400 | – | – | 6,400 | Nil | | 09.08.04 | 30.09.05 |
| | | 42,223 | – | – | 42,223 | | | | |
| *M M Gagen (until 23 August 2004)* | 1998 | 9,049 | – | – | 9,049 | 6.63 | | 15.06.01 | 14.06.05 |
| | | 9,049 | – | – | 9,049 | | | | |

* Awarded before appointment as a Director.

***Note*** On Mr B P Larcombe ceasing to be an employee on 30 September 2004, the expiry dates of the awards made in 1999, 2000 and 2001 were altered so as to expire on 30 September 2005.

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

| | Year of grant | (Note 1) Held at 1 April 2004 | Granted during the year | Exercised during the year | Held at 31 March 2005 (or cessation if earlier) | Exercise price £ | Market price on date of exercise £ | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| R W Perry | 1999 | 543* | – | – | 543 | Nil | | 23.07.04 | 22.07.06 |
| | 2000 | 21,054 | – | – | 21,054 | Nil | | 28.06.05 | 27.06.07 |
| | | 21,597 | – | – | 21,597 | | | | |
| M J Queen | 1999 | 30,243 | – | 30,243 | – | Nil | 5.725 | 23.07.04 | 22.07.06 |
| | 2000 | 25,776 | – | – | 25,776 | Nil | | 28.06.05 | 27.06.07 |
| | | 56,019 | – | 30,243 | 25,776 | | | | |
| *B P Larcombe (until 7 July 2004)* | 1998 | 7,682 | – | – | 7,682 | 6.63 | | 15.06.03 | 14.06.05 |
| | 1999 | 8,213 | – | – | 8,213 | Nil | | 23.07.04 | 30.09.05 |
| | 2000 | 51,518 | – | – | 51,518 | Nil | | 28.06.05 | 30.09.05 |
| | | 67,413 | – | – | 67,413 | | | | |
| *M M Gagen (until 23 August 2004)* | 1998 | 1,652 | – | – | 1,652 | 6.63 | | 15.06.03 | 14.06.05 |
| | 1999 | 24,665 | – | – | 24,665 | Nil | | 23.07.04 | 31.08.05 |
| | 2000 | 30,090 | – | – | 30,090 | Nil | | 28.06.05 | 31.11.04 |
| | | 56,407 | – | – | 56,407 | | | | |

* Awarded before appointment as a Director.

***Notes***

1 The table details awards made in 1998 and 1999 to the extent that they vested in accordance with the performance condition described below. The 1998 awards vested as to 100% and the 1999 awards vested as to 64.6%. It has not yet been determined if and to what extent awards granted in 2000 will vest.

2 In accordance with the rules of the plan, Mr B P Larcombe is permitted, within 12 months of his ceasing to be an employee, to exercise the awards granted in 1998, 1999 and 2000 to the extent that the three year performance condition is satisfied and Mr M M Gagen is so permitted to exercise the awards granted in 1998 and 1999.

The performance condition provided no shares would vest unless the Company's total shareholder return over a three year performance period (based on a six month average share price before the beginning and end of the period) was equal to or exceeded the compounded annual increase in the RPI over the period + 6% per annum. If this minimum return level was achieved, 35% of the shares would vest and all shares would vest if the return was equal to or exceeded RPI + 20% per annum. At performance between these levels, a proportion of shares would vest. If the minimum performance condition was not achieved in the three year performance period, the performance period was extended up to a maximum period of seven years from the same base year. The Committee decided a performance condition linked to shareholder return was in shareholders' interests and by linking the condition to RPI inflationary increases were discounted. The minimum and the maximum targets, 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 Ernst & Young LLP.

***Awards under the US carried interest plans*** From 2002 to 2004, Mr M M Gagen (who was based in and responsible for the Group's US business) was allocated points under the US carried interest plans. The plans operate on the basis of annual "vintages" of investments 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.

| | Points as at 1 April 2004 | Accrued value of points as at 1 April 2004 | Points allocated during the period to 23 August 2004 | Payments received during the period to 23 August 2004 | Points as at 23 August 2004 | Accrued value of points as at 23 August 2004 |
|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | |
| *M M Gagen (until 23 August 2004)* | 115 (2000 Vintage) | £nil | – | – | 115 | £nil |
| | 52 (2001 Vintage) | £nil | – | – | 52 | £nil |
| | 111 (2002 Vintage) | £nil | – | – | 111 | £nil |
| | 135 (2003 Vintage) | £nil | – | – | 135 | £nil |
| | 135 (2004 Vintage) | £nil | – | – | 135 | £nil |

***Notes***

Under the terms of the US carried interest plans, the following points held by Mr M M Gagen were redeemed for nil consideration after he ceased to be a Director: 115 points (2000 Vintage); 52 points (2001 Vintage); 10 points (2002 Vintage). The balance of the points held by Mr M M Gagen vested. As at 31 March 2005, the remaining points held by Mr M M Gagen in the 2002 and 2003 Vintages had a nil accrued value and the points held in the 2004 Vintage had an accrued value of £420,754.

By Order of the Board

**F D Rosenkranz**
Chairman, Remuneration Committee

11 May 2005