Notes to the accounts

1 Segmental analysis of total return

The Group carries on its private equity business in four geographical areas, the United Kingdom, continental Europe, the US and Asia and has one principal activity – the making of investments. The information shown below is based on the geographical location of investee companies.

Geographical areas	United Kingdom 2005 £m	Continental Europe 2005 £m	US 2005 £m	Asia 2005 £m	Total 2005 £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	62	38	–	1	101
Dividend income from equity shares	94	10	–	–	104
Fees receivable	28	27	–	2	57
Other income	42	4	–	–	46
Total operating income before interest payable	226	79	–	3	308
Revenue profit before tax	136	26	(5)	(1)	156
Capital profit before tax	260	113	4	(15)	362
Total return before tax	396	139	(1)	(16)	518
Net assets	2,840	592	127	78	3,637
Total assets	3,316	1,982	314	89	5,701

Geographical areas	United Kingdom 2004 (as restated)* £m	Continental Europe 2004 (as restated)* £m	US 2004 (as restated)* £m	Asia 2004 (as restated)* £m	Total 2004 (as restated)* £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	67	22	2	1	92
Dividend income from equity shares	83	10	1	–	94
Fees receivable	22	24	–	2	48
Other income	28	5	–	–	33
Total operating income before interest payable	200	61	3	3	267
Revenue profit before tax	123	13	(1)	1	136
Capital profit before tax	257	131	(26)	30	392
Total return before tax	380	144	(27)	31	528
Net assets	2,240	848	84	58	3,230
Total assets	3,332	1,703	211	84	5,330

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

2 Realised profits on disposal of investments

	2005 £m	2004 £m
Net proceeds	1,302	923
Opening valuation of investments disposed	(1,011)	(653)
Investments written off	(37)	(50)
Other	6	8
Realised profits on disposal	260	228
Represented by:		
Listed	27	21
Unlisted	233	207
	260	228

Other includes £1 million (2004: £4 million) in respect of subordinated liabilities no longer repayable, as explained in note 37.

3 Unrealised profits on revaluation of investments

	2005 £m	2004 £m
Listed	14	50
Unlisted	256	286
	270	336

4 Carried interest and investment performance plans

	2005 £m	2004 £m
Charge for investment performance plans	67	34
Carried interest	(1)	6
	66	40

As is normal in the private equity industry, the Group offers its investment executives the opportunity to participate in the returns from successful investments. The two principal methods of achieving this are the Group's investment performance plans ("IPP") and carried interest arrangements.

Under the IPP, payments are made on the basis of realised capital profits on investments pooled by team and by year. Payments are made if the realised profits and valuation of remaining investments within a pool indicate that a performance hurdle will be exceeded. Payments are accrued as the increase in asset value is recognised.

	2005 £m	2004 £m
Charge for IPP – realised	30	8
– unrealised	37	26
	67	34

Under the carried interest arrangements, participants purchase a carried interest in future investments within a pool before the investments are made. This entitles them to receive a proportion of the cash flows from those investments in excess of a performance hurdle.

The accounts show the change in value during the year of all outstanding carried interest held by participants in investments held at 31 March 2005.

	2005 £m	2004 £m
Carried interest – realised	–	–
– unrealised	(1)	6
	(1)	6

Participants have purchased a carried interest in respect of all first investments to be made by the Group over the two year period to 31 March 2006.

5 Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments

	UK 2005 £m	Non-UK 2005 £m	Total 2005 £m
Interest receivable on loan investments – unlisted	55	39	94
Fixed rate dividends – unlisted	7	–	7
	62	39	101

	UK 2004 £m	Non-UK 2004 £m	Total 2004 £m
Interest receivable on loan investments – unlisted	60	24	84
Fixed rate dividends – unlisted	7	1	8
	67	25	92

Interest receivable of £36 million (2004: £28 million) has been received by way of loan notes and a corresponding amount has been included in additions to loan investments.

6 Other interest receivable and similar income

	2005 £m	2004 £m
Interest receivable on money market assets, treasury debt securities and similar income	46	33

7 Interest payable

Interest payable has been allocated as follows:

	2005 £m	2004 £m
Revenue reserve	57	51
Capital reserve	25	42
	82	93

Interest payable was allocated so that interest payable less other interest receivable and similar income was allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital.

8 Dividend income from equity shares

	UK 2005 £m	Non-UK 2005 £m	Total 2005 £m
Listed	2	1	3
Unlisted	92	9	101
	94	10	104

	UK 2004 £m	Non-UK 2004 £m	Total 2004 £m
Listed	3	1	4
Unlisted	80	10	90
	83	11	94

9 Fees receivable

Fees have been accounted for as follows:

	2005 £m	2004 £m
Revenue reserve	39	43
Capital reserve – fees receivable	27	20
– deal related costs	(9)	(15)
	57	48

Fees receivable and deal related costs that have been incurred as an intrinsic part of an intention to acquire or dispose of an investment, have been accounted for directly in the capital reserve.

10 Administrative expenses and depreciation

	2005 £m	2004 £m
Staff costs		
Wages and salaries	82	77
Social security costs	10	11
Other pension costs	15	15
	107	103
Other administrative expenses	61	55
Depreciation	4	5
Total administrative expenses	172	163
Total administrative expenses have been allocated as follows:		
Revenue reserve	78	72
Capital reserve	94	91
	172	163

The average monthly number of employees during the year was 763 (2004: 833). In addition to the staff costs shown above, the amounts shown in note 4 have been charged against capital profits in respect of carried interest and investment performance plans.

Costs associated with making and managing investments were allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital.

11 Directors' emoluments

Details of Directors' emoluments are contained within their Directors' remuneration report on pages 40 to 47.

12 Pension arrangements

The Group operates a number of pension schemes. The main scheme, which covers most employees, is the 3i Group Pension Plan ("the Plan"). The cost of the Plan recognised in the accounts was £12 million (2004: £10 million) and other plans was £3 million (2004: £5 million). The Plan is a funded defined benefit scheme, the assets of which are independent of the Group's finances and are administered by Trustees. The Group accounts for pension arrangements in accordance with Financial Reporting Standard 17 – Retirement Benefits ("FRS 17"), having previously complied with the transitional disclosure requirements of the standard and SSAP 24, the effect of adopting FRS 17 is explained in note 42.

The last full actuarial valuation at 30 June 2004 was updated to 31 March 2005 by an independent qualified actuary in accordance with FRS 17. The Plan's liabilities have been measured using the projected unit method. The valuation for FRS 17 purposes is based on the membership details and demographic assumptions used in the most recent actuarial valuation. The Plan assets have been updated to market value as at 31 March 2005.

The key FRS 17 assumptions used for the Plan were:

	2005	2004	2003
Price inflation	3.0%	2.9%	2.5%
Salary increases (excluding promotion)	4.5%	4.4%	4.0%
Pension increases	3.1%	3.0%	3.0%
Discount rate	5.4%	5.5%	5.6%

Following advice from the actuaries, no regular employer contributions were made during the period 1 July 1985 to 1 April 2002. Regular employer contributions recommenced on 1 April 2002. For the year to 31 March 2005 standard contributions were agreed to be 29.2% of members' pensionable salaries. Additional employer contributions were made in the year to 31 March 2005 of £60 million (2004: £13 million, 2003: £13 million and 2002: £13 million).

New employees joining 3i and the Plan after 1 September 2002 are required to contribute 5% of their monthly pensionable salaries. Under its rules, the Plan was non contributory for employees, joining prior to 1 September 2002, from 1 April 1978 to 31 December 2002. From 1 January 2003, the rules of the Plan were changed and employees who joined the Plan prior to 1 September 2002 were required to contribute 1% of monthly pensionable salary, this will increase by 1% each year to a target of 5% of pensionable salary. Currently, the contributions are 3% of pensionable salary.

Mr R W Perry and Mr O H J Stocken are Directors of 3i Group plc and were also throughout the year Directors of Gardens Pension Trustees Limited, one of two Corporate Trustees of the 3i Group Pension Plan.

During the year, the Board of the Company provided a guarantee to the Trustees of the Plan in respect of the liabilities to the Plan of 3i plc, the principal employer under the Plan.

The assets of the Plan and their expected return were:

	Long-term rate of return expected at 31 March 2005	2005 Value £m	Long-term rate of return expected at 31 March 2004	2004 Value £m	Long-term rate of return expected at 31 March 2003	2003 Value £m
Equities	7.7%	205	7.9%	187	7.5%	144
Gilts	4.7%	162	4.7%	62	4.5%	42
Other	4.7%	–	4.6%	23	3.8%	27
		367		272		213
Present value of Plan liabilities		(390)		(355)		(303)
Net pension liability		(23)		(83)		(90)

A deferred tax asset has not been recognised on this deficit because its utilisation is considered unlikely in the foreseeable future.

12 Pension arrangements (continued)

The following amounts have been recognised in the total return:

	2005 £m	2004 £m
Revenue account		
Amount charged to administrative expenses		
Current service cost	(10)	(9)
Vested past service	(2)	(1)
Total administrative expenses	(12)	(10)
Amount charged to other finance costs		
Expected return on Plan assets	21	14
Interest on Plan liabilities	(20)	(17)
Net return	1	(3)
Revenue return	(11)	(13)
Capital account		
Difference between the expected and actual return on Plan assets	13	30
Experience gains/(losses) on Plan liabilities	17	(12)
Changes in assumptions underlying the present value of Plan liabilities	(31)	(22)
Actuarial (losses) recognised in total return	(1)	(4)
Total return	(12)	(17)

The movement in pension deficit is as follows:

	2005 £m	2004 £m
Opening balance	(83)	(90)
Current service cost	(10)	(9)
Past service cost	(2)	(1)
Contributions	72	24
Other financial income/(costs)	1	(3)
Actuarial (losses) recognised in capital reserve	(1)	(4)
Movement in the year	60	7
Closing balance	(23)	(83)

History of experience gains and losses:

	2005	2004	2003
Difference between the expected and actual return on Plan assets:			
Amount	£13m	£30m	£(76)m
Percentage of Plan assets (closing)	4%	11%	36%
Experience gains/(losses) on Plan liabilities:			
Amount	£17m	£(12)m	£(5)m
Percentage of present value of Plan liabilities (closing)	4%	3%	2%
Total amount recognised in the capital reserve:			
Amount	£(1)m	£(4)m	£(93)m
Percentage of present value of Plan liabilities (closing)	–	1%	31%

13 Profit on ordinary activities before tax

This is arrived at after charging:

	2005 £m	2004 £m
Depreciation on owned assets	3	4
Depreciation on hire purchase assets	1	1

Auditors' remuneration

The auditors received fees for the statutory audit of the Group of £1.0 million (2004: £0.8 million), which included £0.2 million (2004: £0.2 million) for the Company. Total fees paid by the Group to Ernst & Young LLP are analysed below:

	2005 £m	2004 £m
Audit services		
Statutory audit fee – UK	0.7	0.5
– overseas	0.3	0.3
Audit related regulatory reporting – UK	0.1	0.1
Total audit services	1.1	0.9
Further assurance services	0.1	0.1
Tax services (compliance and advisory services)	–	0.2
Other services:		
Investment due diligence	0.2	0.4
Secondment to the Group's investment business	–	0.1
Total other fees	0.3	0.8

Audit services are services required to be undertaken by the auditors which include the statutory audit and interim review, regulatory returns and formalities relating to borrowing, shareholder and other circulars. This work is normally allocated to the auditors.

Tax and further assurance services are services which it is most efficient for the auditors to provide and is allocated to them subject to consideration of any impact on their independence.

Other services are 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. Other services in this category include due diligence within the investment process. If this were to be provided by the auditors, the specific team engaged would be independent of the audit.

In addition to the above the Group has identified £1.3 million of investment related fees paid to Ernst & Young LLP by investee companies, where the Group's investee companies and investment teams have appointed the service provider. It is estimated that Ernst & Young LLP receive less than 10% of the total investment related fees paid to the four largest accounting firms.

14 Tax

The tax charge/(credit) for the year comprises:

	Revenue 2005 £m	Capital 2005 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	20	(20)
UK corporation tax at 30%	1	–
Less relief for foreign tax	(1)	–
Foreign tax	2	1
Adjustment in respect of previous periods	–	–
Current tax charge/(credit) for the year	22	(19)
Deferred tax	–	–
Charge/(credit) for the year	22	(19)

	Revenue 2004 £m	Capital 2004 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	26	(26)
UK corporation tax at 30%	3	–
Less relief for foreign tax	(3)	–
Foreign tax	3	–
Adjustment in respect of previous periods	–	–
Current tax charge/(credit) for the year	29	(26)
Deferred tax	–	1
Charge/(credit) for the year	29	(25)

The charge/(credit) for the year all relates to the Company and its subsidiary undertakings.

Factors affecting the charge for the year The tax charge for the year differs from the standard rate of corporation tax in the UK, currently 30% (2004: 30%), and the differences are explained below:

	Revenue 2005 £m	Capital 2005 £m
Return before tax	156	362
Return before tax multiplied by standard UK corporation tax rate of 30%	47	109
Effects of:		
Expenses not deductible for tax purposes	1	–
Short-term timing differences	(4)	–
Current period unutilised tax losses	2	–
Non-taxable UK dividend income	(31)	–
Repatriated profits of overseas group undertakings	7	–
Foreign tax	1	–
Foreign tax credits available for double tax relief	(1)	–
Capital profits not chargeable because of Investment Trust status	–	(128)
Current tax charge/(credit) for the year	22	(19)

14 Tax (continued)

	Revenue 2004 (as restated)* £m	Capital 2004 (as restated)* £m
Return before tax	136	392
Return before tax multiplied by standard UK corporation tax rate of 30%	41	118
Effects of:		
Expenses not deductible for tax purposes	–	–
Short-term timing differences	1	–
Current period unutilised tax losses	4	–
Non-taxable UK dividend income	(28)	–
Repatriated profits of overseas group undertakings	11	–
Foreign tax	3	–
Foreign tax credits available for double tax relief	(3)	–
Capital profits not chargeable because of Investment Trust status	–	(144)
Current tax charge/(credit) for the year	29	(26)

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

The Group's investments and capital return are primarily included in the Group's ultimate parent company, the affairs of which are directed so as to allow it to be approved as an investment trust. As investment trusts are exempt from capital gains tax, the Group's capital return is largely not taxable.

Factors that may affect future tax charges The Group currently has and expects to continue to generate surplus tax losses. A deferred tax asset in respect of these surplus losses is not recognised because their utilisation is considered unlikely in the foreseeable future.

15 Profit after tax

The amount dealt with in the revenue account of the Company is £100 million (2004: £79 million).

16 Dividends

	2005 £m	2004 £m
Interim paid 5.3p per share (2004: 5.1p per share paid)	32	31
Final proposed 9.3p per share (2004: 8.9p per share paid)	56	53
	88	84

17 Earnings and net assets per share

		2005	2004 (as restated)*
Revenue profit for the year		£134m	£107m
Weighted average number of shares	– basic	603m	602m
	– diluted	628m	619m
Earnings per share	– basic	22.2p	17.8p
	– diluted	21.4p	17.3p
Net assets		£3,637m	£3,230m
Number of shares	– basic	602m	604m
	– diluted	603m	604m
Net asset value per share	– basic	604p	535p
	– diluted	603p	535p

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

The difference between the basic and diluted weighted average number of shares used in the calculation of earnings per share and total return per share is the dilutive effect of the convertible bonds and share options.

The difference between the basic and diluted number of shares used in the calculation of net asset value per share is the dilutive effect of share options.

18 Related undertakings

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 to the Companies Act 1985 is such that compliance would result in information of excessive length being given.

In accordance with section 231 of that Act, information regarding principal subsidiary undertakings and joint ventures is set out on page 70.
Full information will be annexed to the Company's next annual return.

As permitted by Financial Reporting Standard 8 – Related Party Disclosures – transactions or balances with Group entities that have been eliminated on consolidation are not reported.

19 Loans and advances to banks

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable on demand	161	94	61	50
Maturity of other loans and advances to banks				
Repayable:				
within three months	748	325	723	270
between three months and one year	110	115	110	115
	1,019	534	894	435

20 Debt securities held for treasury purposes

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable within one year	179	284	179	284

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Debt securities and fixed income shares				
Loan investments	1,293	1,312	1,190	1,217
Fixed income shares	107	150	106	148
	1,400	1,462	1,296	1,365
Equity shares				
Listed	179	225	176	219
Unlisted	2,722	2,639	2,449	2,440
	2,901	2,864	2,625	2,659
Total	4,301	4,326	3,921	4,024
Maturity of debt securities and fixed income shares				
Repayable within one year	83	93	80	89
Repayable after more than one year	1,317	1,369	1,216	1,276
	1,400	1,462	1,296	1,365

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares (continued)

	The Group Equity shares 2005 £m	The Group Loan investments 2005 £m	The Group Fixed income shares 2005 £m	The Group Total 2005 £m
Opening balances				
Cost	2,579	1,528	297	4,404
Unrealised appreciation	285	(216)	(147)	(78)
	2,864	1,312	150	4,326
Additions at cost	294	451	10	755
Disposals, repayments and write-offs	(476)	(403)	(84)	(963)
Transfers	36	(36)	–	–
Unrealised appreciation	150	(48)	31	133
Currency translation	33	17	–	50
31 March 2005	2,901	1,293	107	4,301
Represented by:				
Cost	2,466	1,557	223	4,246
Unrealised appreciation	435	(264)	(116)	55
	2,901	1,293	107	4,301
Listed				
UK	107	–	–	107
Non-UK	72	–	1	73
	179	–	1	180
Unlisted				
UK	1,294	770	82	2,146
Non-UK	1,428	523	24	1,975
	2,722	1,293	106	4,121

	The Company Equity shares 2005 £m	The Company Loan investments 2005 £m	The Company Fixed income shares 2005 £m	The Company Total 2005 £m
Opening balances				
Cost	2,361	1,412	294	4,067
Unrealised appreciation	298	(195)	(146)	(43)
	2,659	1,217	148	4,024
Additions at cost	249	398	12	659
Disposals, repayments and write-offs	(414)	(395)	(85)	(894)
Transfers	32	(32)	–	–
Transfers to other Group companies	(12)	(2)	–	(14)
Unrealised appreciation	86	(9)	31	108
Currency translation	25	13	–	38
31 March 2005	2,625	1,190	106	3,921
Represented by:				
Cost	2,241	1,394	221	3,856
Unrealised appreciation	384	(204)	(115)	65
	2,625	1,190	106	3,921
Listed				
UK	107	–	–	107
Non-UK	69	–	1	70
	176	–	1	177
Unlisted				
UK	1,292	768	81	2,141
Non-UK	1,157	422	24	1,603
	2,449	1,190	105	3,744

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares (continued)

Group companies have invested in or made commitments to 17 limited partnerships. These investments represented the following proportions of the total commitments of all investors in these partnerships:

Partnership	Proportion of total commitments
3i Europe Investment Partners No. 1	0.92%
3i Europe Investment Partners No. 2	<0.01%
3i 94 LMBO Plan	<0.01%
3i UK Investment Partners	0.23%
3i Smaller MBO Plan	<0.01%
3i NPM Smaller MBO Plan	<0.01%
3i UKIP II LP	<0.01%
3i Europartners II LP	<0.01%
3i Parallel Ventures LP	<0.01%
3i Europartners IIIA LP	<0.01%
3i Europartners IIIB LP	<0.01%
3i Asia Pacific Technology LP	<0.01%
3i Europartners IVa LP	<0.01%
3i Europartners IVb LP	<0.01%
3i Europartners IVc LP	<0.01%
3i Europartners IVd LP	<0.01%
3i Europartners IVk LP	<0.01%

The proportion of total commitments shown above are those at both 31 March 2005 and 31 March 2004 except the commitments made to 3i Europartners IVc LP and 3i Europartners IVk LP, which were made during the year. Although Group companies act as the general partner and the manager of each partnership, since their rights as such are held in a fiduciary capacity, the investments are included as equity share investments. Unrealised appreciation on unlisted equity investments includes £4 million (2004: £5 million) which represents the net carried interest that would be received by the Group if all investments held by the limited partnerships, which have already achieved their necessary hurdle, were realised at their valuation on the balance sheet date. The Group received fee income of £27 million (2004: £31 million) and distributions of £1 million (2004: £2 million) from this activity.

22 Interests in joint ventures

	The Group 2005 £m	The Company 2005 £m
Opening balances		
Cost	111	26
Share of post acquisition retained surpluses less losses	(9)	–
Unrealised appreciation	(75)	(16)
	27	10
Additions	14	–
Disposal and repayments	(10)	(4)
Share of net surplus less losses	(3)	–
Unrealised appreciation	13	8
Currency translation	5	–
31 March 2005	46	14
Represented by:		
Cost	121	22
Share of post acquisition retained surpluses less losses	(13)	–
Unrealised appreciation	(62)	(8)
	46	14

The additions to joint ventures were new loans to DIAB Intressenter AB. Disposal and repayments were mostly repayment of loans.

The gross assets of the joint ventures are debt securities and other fixed income securities held as financial fixed assets. The gross liabilities are other liabilities. Details of the Group's interests in its principal joint ventures, which are unlisted and outside the UK, are given on page 70.

23 Shares in Group undertakings

	The Company 2005 £m
Opening balance	
Cost	160
Provision	(113)
	47
Additions	75
Disposals	(16)
Reversal of provision	39
Currency translation	2
31 March 2005	147
Represented by:	
Cost	224
Provision	(77)
	147

Details of the principal subsidiary undertakings are given on page 70.

24 Tangible fixed assets

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Investment properties	6	5	–	–
Properties in use by the Group	25	26	25	25
Other fixed assets in use by the Group	8	9	–	–
	39	40	25	25

Properties	The Group Investment properties 2005 £m	The Company Investment properties 2005 £m	The Group Properties in use by the Group 2005 £m	The Company Properties in use by the Group 2005 £m
Opening balances				
Cost	5	–	22	21
Unrealised appreciation	–	–	4	4
	5	–	26	25
Movement in unrealised appreciation	1	–	(1)	–
31 March 2005	6	–	25	25
Represented by:				
Cost	5	–	22	21
Unrealised appreciation	1	–	3	4
	6	–	25	25
Freehold	6	–	8	8
Leasehold – 50 years and over	–	–	17	17
	6	–	25	25

24 Tangible fixed assets (continued)

Other fixed assets in use by the Group	The Group Office equipment 2005 £m	The Group Hire purchase motor vehicles 2005 £m	The Group Total 2005 £m
Opening cost	56	3	59
Additions	3	1	4
Disposals	(10)	(2)	(12)
Cost at 31 March 2005	49	2	51
Opening depreciation	49	1	50
Charge for year	3	1	4
Disposals	(10)	(1)	(11)
Depreciation at 31 March 2005	42	1	43
Book amount at 31 March 2005	7	1	8
Book amount at 31 March 2004	7	2	9

Obligations	The Group Operating leases 2005 £m	The Group Operating leases 2004 £m	The Company Hire purchase contracts 2005 £m	The Company Hire purchase contracts 2004 £m
Within one year	–	1	–	–
Between one year and two years	1	–	–	–
Between two years and five years	2	3	1	2
After five years	3	3	–	–
	6	7	1	2

The obligations under operating leases represent the obligations payable in the year to 31 March 2006 banded as to when the leases expire. The hire purchase obligations are the total amount payable under these contracts.

25 Other assets

	The Group 2005 £m	The Group 2004 (as restated)* £m	The Company 2005 £m	The Company 2004 (as restated)* £m
Tax recoverable	3	3	–	–
Other debtors	51	50	21	7
Amounts due from Group undertakings			26	21
	54	53	47	28

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

26 Prepayments and accrued income

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Interest receivable	62	65	53	44

27 Deposits by banks

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
With agreed maturity dates or periods of notice	**208**	215	**93**	113
Maturity of deposits with agreed maturity dates or periods of notice				
Repayable:				
within three months	**17**	41	**17**	41
between one year and two years	**151**	–	**76**	–
between two years and five years	**40**	174	**–**	72
	208	215	**93**	113

28 Debt securities in issue

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Bonds and notes	**1,005**	1,008	**804**	805
Other debt securities in issue	**84**	120	**84**	120
	1,089	1,128	**888**	925

Bonds and notes	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Variable rate				
Unsecured loan notes				
Various maturities – 2007-2010	**1**	2	**–**	1
Total variable rate	**1**	2	**–**	1

Notes issued under the £2,000 million Note Issuance Programme	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Fixed rate				
Public issues				
3i Group plc 6.875% – matures 2007	**200**	200	**200**	200
3i Group plc 6.875% – matures 2023	**200**	200	**200**	200
3i Group plc 5.750% – matures 2032	**400**	400	**400**	400
Private placings	**–**	2	**–**	–
Total fixed rate	**800**	802	**800**	800
Variable rate				
Public issues				
3i Holdings plc – matures 2007	**200**	200		
Private placings	**4**	4	**4**	4
Total variable rate	**204**	204	**4**	4
Total bonds and notes	**1,005**	1,008	**804**	805

28 Debt securities in issue (continued)

Maturity of bonds and notes	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable:				
on demand or within one year	**4**	2	**4**	–
between one year and two years	**–**	4	**–**	4
between two years and five years	**400**	401	**200**	201
after five years	**601**	601	**600**	600
	1,005	1,008	**804**	805
Maturity of other debt securities in issue				
Repayable:				
within three months	**81**	106	**81**	106
between three months and one year	**–**	11	**–**	11
between one year and two years	**3**	1	**3**	1
between two years and five years	**–**	2	**–**	2
	84	120	**84**	120

The Group had the following committed multi-currency facilities at 31 March 2005:

Negotiated	Facility	Drawn	Drawn margin (over LIBOR)	Undrawn commitment fee
June 2001 (matures 21 June 2006)	**£360m**	**£151m**	**0.1750%**	**0.0875%**
November 2004 (matures 29 October 2008)	**€595m**	**£40m**	**0.2000%**	**0.1000%**

The drawn margin on the €595 million facility increases to 0.2250% if the drawn amount is between 33% and 66% of the facility, and to 0.2500% if the drawn amount is greater than 66% of the facility.

29 Convertible bonds

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Repayable between two years and five years	**378**	367	**378**	367

On 1 August 2003, 3i Group plc issued €550 million 1.375% Convertible Bonds due 2008. They are convertible at the option of the Bondholder to cash and ordinary shares at any time from 11 September 2003 to 25 July 2008. The number of shares to be issued on conversion will be determined by dividing the principal of the bond less the cash settled amount by the conversion price in effect on the conversion date. The initial conversion price is £8.416757. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008.

If certain conditions are met, the Issuer may redeem all, but not some only, of the Bonds for the time being outstanding at their principal amount. The Issuer may make a payment in cash as an alternative to issuing shares upon either conversion or redemption.

Interest is payable on the bonds in equal semi annual instalments in arrears on 12 January and 12 July each year.

The fair value of the convertible bonds at 31 March 2005 was £381 million.

30 Interest rate sensitivity gap analysis

Interest rate risk emanates from the Group's loan investments and the Group's funding. The Group's policy is that fixed rate lending is matched with fixed rate borrowings and the interest rate resetting profile of variable rate lending is matched with that of variable rate borrowings through gearing the portfolio. Financial instruments including interest rate swaps are used as part of this matching process. Equity investments, which are mainly funded by shareholders' funds but also partially by borrowings in similar currencies, give rise to an interest rate sensitivity gap as a result of the equity investments being non-interest bearing and having no fixed maturity date. The interest rate sensitivity gap at 31 March 2005 was:

Assets	Not more than three months 2005 £m	More than three months but not more than six months 2005 £m	More than six months but not more than one year 2005 £m	More than one year but not more than five years 2005 £m	More than five years 2005 £m	Non-interest bearing 2005 £m	Total 2005 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	909	110	–	–	–	–	1,019
Debt securities held for treasury purposes	154	25	–	–	–	–	179
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	262	41	29	256	705	–	1,293
Fixed income shares	–	–	–	–	–	107	107
Equity shares	–	–	–	–	–	2,901	2,901
Other assets	–	–	–	–	–	201	201
	1,325	176	29	256	706	3,209	5,701
Liabilities							
Deposits by banks	208	–	–	–	–	–	208
Debt securities in issue	(142)	(37)	27	349	892	–	1,089
Convertible bonds	–	–	–	378	–	–	378
Other liabilities	–	–	–	–	–	339	339
Subordinated liabilities	–	–	–	–	50	–	50
Shareholders' funds	–	–	–	–	–	3,637	3,637
	66	(37)	27	727	942	3,976	5,701
Interest rate sensitivity gap	1,259	213	2	(471)	(236)	(767)	–
Cumulative gap	1,259	1,472	1,474	1,003	767	–	–

Assets	Not more than three months 2004 (as restated)* £m	More than three months but not more than six months 2004 (as restated)* £m	More than six months but not more than one year 2004 (as restated)* £m	More than one year but not more than five years 2004 (as restated)* £m	More than five years 2004 (as restated)* £m	Non-interest bearing 2004 (as restated)* £m	Total 2004 (as restated)* £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	419	65	50	–	–	–	534
Debt securities held for treasury purposes	244	40	–	–	–	–	284
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	424	39	59	301	489	–	1,312
Fixed income shares	–	–	–	–	–	150	150
Equity shares	–	–	–	–	–	2,864	2,864
Other assets	–	–	–	–	–	185	185
	1,087	144	109	301	490	3,199	5,330
Liabilities							
Deposits by banks	215	–	–	–	–	–	215
Debt securities in issue	(174)	(24)	21	388	917	–	1,128
Convertible bonds	–	–	–	367	–	–	367
Other liabilities	–	–	–	–	–	345	345
Subordinated liabilities	–	–	–	–	45	–	45
Shareholders' funds	–	–	–	–	–	3,230	3,230
	41	(24)	21	755	962	3,575	5,330
Interest rate sensitivity gap	1,046	168	88	(454)	(472)	(376)	–
Cumulative gap	1,046	1,214	1,302	848	376	–	–

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

31 Currency exposures

Currency rate risk emanates from the Group's international operations. The policy regarding currency risk is set out in the Operating and financial review on pages 25 and 26. Currency swaps are used as part of applying that policy.

The Group's structural currency exposures at 31 March 2005 were as follows:

Currency	Variable rate loan investments 2005 £m	Fixed rate loan investments 2005 £m	Other investment assets 2005 £m	Other net assets before borrowings 2005 £m	Short-term variable rate borrowings 2005 £m	Other variable rate borrowings 2005 £m	Fixed rate borrowings 2005 £m	Net assets 2005 £m
Sterling	198	478	1,360	852	717	215	(1,196)	2,624
Euro	75	291	930	115	(448)	93	(583)	473
US dollar	13	83	396	32	(146)	–	–	378
Swiss franc	–	50	93	2	(41)	–	–	104
Swedish krona	1	89	233	7	(126)	(151)	–	53
Other	–	15	48	1	(53)	–	(6)	5
Subtotal	89	528	1,700	157	(814)	(58)	(589)	1,013
Total	287	1,006	3,060	1,009	(97)	157	(1,785)	3,637

Currency	Variable rate loan investments 2004 (as restated)* £m	Fixed rate loan investments 2004 (as restated)* £m	Other investment assets 2004 (as restated)* £m	Other net assets before borrowings 2004 (as restated)* £m	Short-term variable rate borrowings 2004 (as restated)* £m	Other variable rate borrowings 2004 (as restated)* £m	Fixed rate borrowings 2004 (as restated)* £m	Net assets 2004 (as restated)* £m
Sterling	341	429	1,622	556	60	223	(1,132)	2,099
Euro	102	256	862	28	72	60	(595)	785
US dollar	32	47	268	7	(120)	–	–	234
Swiss franc	–	41	68	3	(21)	–	–	91
Swedish krona	1	52	185	26	(133)	(144)	–	(13)
Other	–	11	41	7	(12)	–	(13)	34
Subtotal	135	407	1,424	71	(214)	(84)	(608)	1,131
Total	476	836	3,046	627	(154)	139	(1,740)	3,230

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

32 Liquidity

The Group's liquidity policy is based on a maturity ladder approach with all mismatch limits of cash flows between cumulative assets and cumulative liabilities over various time periods approved by the Board. The limits for shorter periods are also agreed with the Financial Services Authority.

33 Fair value of financial assets and financial liabilities

The Group does not have a trading book and it holds all assets and liabilities in a non-trading book.

Financial assets Quoted and unquoted equity investments and quoted fixed income shares are included in the consolidated balance sheet at market value or Directors' valuation which equates to fair value. Unquoted fixed income shares and loan investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. No liquid and active market exists, either for the unquoted fixed income shares or loan investments or their component parts. The fair value of other financial assets equates to their book value in the consolidated balance sheet.

Financial liabilities The Group's borrowings finance loan investments, fixed income shares and equity shares. As stated above, these unquoted loan and fixed income share investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. These investments are not shown at an estimated market value as no active and liquid market exists for them. The Report and accounts therefore do not include any recognition of the effect of their yield being above or below current market yields. However, Financial Reporting Standard 13 – Derivatives and other financial instruments: disclosures – requires disclosure of the fair value of those elements of the Group's borrowings that are listed even though, in some cases, the market for those borrowings is not particularly active. The remainder of the Group's borrowings, which are unlisted, do not have a liquid or active market.

The fair value of the listed element of financial liabilities at 31 March 2005 was £1,440 million (2004: £1,424 million), which compares with a book amount of £1,379 million (2004: £1,367 million). These borrowings are used to fund investments which, in general, yield a net margin to the Group and which would therefore have a higher fair value than the fair value of the borrowing. The fair value of other financial liabilities equates to their book value in the consolidated balance sheet.

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

The book value of derivatives represents net interest receivable/(payable) on such instruments at the balance sheet date. The fair value represents the replacement cost of the instruments at the balance sheet date. No unrealised gains or losses are included in the balance sheet. The amount of unrecognised gains or losses at the balance sheet date equates to the difference between fair value and book value.

33 Fair value of financial assets and financial liabilities (continued)

The fair values and book values at 31 March 2005 of the swaps and other foreign exchange contracts were:

	Fair value 2005 £m	Fair value 2004 £m	Book value 2005 £m	Book value 2004 £m
Interest rate swaps	(36)	(19)	–	1
Currency swaps	(6)	(8)	–	–
Other foreign exchange contracts	16	–	–	–
	(26)	(27)	–	1

All swaps held at 31 March 2005 mature before 31 March 2041.

The principal outstanding on currency swap agreements and notional principal outstanding on interest rate swap agreements were:

	2005 £m	2004 £m
Fixed rate to variable rate	430	507
Variable rate to fixed rate	917	1,032
Variable rate to variable rate	170	170
Fixed rate to fixed rate	70	70
Included in the above are currency swaps amounting to	68	109

The principal outstanding on other foreign exchange contracts was £825 million.

All financial instruments are unsecured. However, the Group does not expect non-performance by the counterparties, whose credit ratings are reviewed regularly.

34 Other liabilities

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Obligations under hire purchase contracts	1	2	–	–
Proposed dividend	56	53	56	53
Taxation payable	2	2	–	–
Amounts due to Group undertakings			237	203
	59	57	293	256

The amounts due to Group undertakings include £141 million (2004: £141 million) due after more than one year.

35 Accruals and deferred income

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Interest payable	33	33	26	25
Other accruals	211	166	114	51
	244	199	140	76

36 Provisions for liabilities and charges

	Property 2005 £m	Cost of organisational changes 2005 £m	Redundancy 2005 £m	Deferred tax 2005 £m	Total 2005 £m
Opening balance	2	3	–	1	6
Charge for year	5	–	7	–	12
Utilised in year	(1)	(3)	(1)	–	(5)
Movement for the year	4	(3)	6	–	7
31 March 2005	6	–	6	1	13

The provision for the cost of organisational changes related to organisational changes and staff reductions announced in the two years to 31 March 2003. This is now fully utilised. The provision for redundancy relates to staff reductions announced in the year to 31 March 2005.

36 Provisions for liabilities and charges (continued)

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs have been provided for and arise over the period of the lease.

Deferred tax

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Unrealised appreciation less expected losses	1	1	–	–

The Group has generated surplus tax losses and expects to continue to do so in the future. A deferred tax asset in respect of these surplus losses has not been recognised because their utilisation is considered unlikely in the foreseeable future.

37 Subordinated liabilities

Subordinated liabilities comprise limited recourse funding from Kreditanstalt für Wiederaufbau ("KfW"), a German federal bank. This funding, which individually finances investment assets, is at various fixed rates of interest and maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual group undertakings to which these funds have been advanced and become non-repayable as assets fail. The carrying values of the non-recourse funding are adjusted to reflect the amounts expected to be payable when assets are failing.

38 Called up share capital

	The Company 2005 Number	The Company 2005 £m
Authorised		
Ordinary shares of 50p each	820,000,000	410
Unclassified shares of 10p each	1,000,000	–
Issued, called up and fully paid Ordinary shares of 50p each		
Opening balance	613,479,159	307
Allotted on exercise of options under The 3i Executive Share Option Plan and The 3i Group 1994 Executive Share Option Plan at between 272p and 664p per share	548,881	–
Allotted on exercise of options under The 3i Group Sharesave Scheme at 467p per share	155,722	–
Allotted under The 3i Group Share Incentive Plan at between 564p and 694p per share	225,405	–
Movement for the year	930,008	–
31 March 2005	614,409,167	307

The market price of shares on the date on which the terms of the issues were fixed, was the price at which those shares were allotted, except in relation to those allotted under The 3i Group Sharesave Scheme where the market price of the shares was 583p.

38 Called up share capital (continued)

There were options outstanding to subscribe for the shares of the Company under The 3i Executive Share Option Plan, The 3i Group 1994 Executive Share Option Plan, The 3i Group Discretionary Share Plan and The 3i Group Sharesave Scheme as follows:

	Number of options	Period of exercise	Exercise price
31 March 2005	**24,943,522**	**2005 to 2014**	**361p to 1375p**
31 March 2004	22,919,966	2004 to 2013	272p to 1375p

The interests of the Directors (all of which are beneficial) in the ordinary shares of the Company are shown below:

	31 March 2005 (or date of cessation if earlier)	31 March 2004 (or date of appointment if later)	**31 March 2005 (or date of cessation if earlier) Conditional***	31 March 2004 (or date of appointment if later) Conditional*
Baroness Hogg	**17,355**	12,355	**–**	–
Dr J R Forrest (until 7/7/04)	**1,500**	1,500	**–**	–
P Mihatsch (appointed 7/9/04)	**–**	–	**–**	–
C J M Morin-Postel	**2,000**	2,000	**–**	–
F D Rosenkranz	**30,000**	30,000	**–**	–
R H Smith (appointed 7/9/04)	**4,200**	4,200	**–**	–
F G Steingraber	**–**	–	**–**	–
O H J Stocken	**12,825**	12,582	**–**	–
P E Yea (appointed 7/7/04)	**281,611**	100,500	**–**	–
B P Larcombe (until 7/7/04)	**836,573**	836,390	**42,223**	42,223
S P Ball (appointed 7/2/05)	**–**	–	**–**	–
M M Gagen (until 23/8/04)	**91,055**	91,055	**9,049**	9,049
R W Perry	**87,488**	63,625	**16,206**	16,206
M J Queen	**319,191**	173,832	**8,144**	27,145

* Represents conditional rights to acquire shares pursuant to deferred share bonus awards granted under the Management Equity Investment Plan, described on page 46.

The share interests shown above for each of Mr B P Larcombe, Mr R W Perry, Mr M J Queen and Mr P E Yea include performance share awards which are subject to forfeiture and are detailed in the table on page 44.

In addition to the interests shown above, the executive Directors also have beneficial interests in the conditional rights to acquire shares pursuant to the performance linked awards granted under the Management Equity Investment Plan, which are detailed in the table on page 47. Each of the employees of the Group (including each of the executive Directors) is a potential beneficiary of The 3i Group Employee Trust and as such is interested (within the meaning of section 324 of the Companies Act 1985) in the shares held by the trust. The trust held 9,888,368 shares at 1 April 2004, 9,530,911 shares as at 7 July 2004, 8,930,140 shares as at 7 September 2004, 12,522,519 shares as at 7 February 2005 and 12,496,297 shares as at 31 March 2005. This number of shares includes the shares over which Directors are mentioned above as having conditional rights to acquire under the Management Equity Investment Plan.

Details of Directors' share options under the Group's Executive Share Option Plans are shown in the Director's remuneration report on page 42 and 43.

Since 31 March 2005, there have been changes in the Directors' interests in shares. As at 3 May 2005, each of these Directors were beneficially interested in the following number of additional shares: Mr P E Yea (60), Mr R W Perry (60) and Mr M J Queen (57). In addition, as at that date, the number of shares held by The 3i Group Employee Trust was 12,496,297.

39 Reserves

	The Group Revenue 2005 £m	The Group Share premium 2005 £m	The Group Capital redemption 2005 £m	The Group Capital 2005 £m
Opening balances	391	359	1	2,337
Prior year adjustment	1	–	–	(111)
Opening balances as restated	392	359	1	2,226
Retained revenue for the year	46			
Realised profits on disposal of investments				260
Change in value of retained investments				270
Carried interest and investment performance plans				(66)
Fees receivable allocated to capital reserve				18
Interest payable allocated to capital reserve				(25)
Administrative expenses allocated to capital reserve				(94)
Actuarial gains/(losses) on pension plan				(1)
Tax on capital items				19
Increase in respect of shares issued		5		
Currency translation adjustment	(1)			(2)
Movement for the year	45	5	–	379
31 March 2005	437	364	1	2,605
The balance on the capital reserve represents:				
Realised profits				2,688
Unrealised appreciation				(83)
				2,605

	The Company Revenue 2005 £m	The Company Share premium 2005 £m	The Company Capital redemption 2005 £m	The Company Capital 2005 £m
Opening balances	463	359	1	2,085
Retained revenue for the year	12			
Realised profits on disposal of investments				291
Change in value of retained investments				223
Carried interest and investment performance plans				(66)
Interest payable allocated to capital reserve				(9)
Administrative expenses allocated to capital reserve				(42)
Capital contribution to subsidiary undertaking				(60)
Increase in respect of shares issued		5		
Currency translation adjustment	(6)			2
Movement for the year	6	5	–	339
31 March 2005	469	364	1	2,424
The balance on the capital reserve represents:				
Realised profits				2,547
Unrealised appreciation				(123)
				2,424

39 Reserves (continued)

	The Company £m	Subsidiary undertakings £m	Joint ventures £m	Total £m
Retained profits				
31 March 2005				
Revenue and realised capital profits	**3,016**	**122**	**(13)**	**3,125**
31 March 2004 (as restated)*				
Revenue and realised capital profits	2,776	81	(9)	2,848

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

The Company's Articles of Association prohibit the distribution of capital profits by way of dividend. As a result, the balance of its capital reserve, both realised and unrealised, is not distributable.

40 Unrealised appreciation

Unrealised appreciation represents the difference between the original cost of investments and their carrying value, less charges.

	2005 £m	2004 £m
Opening balance after tax	**(230)**	(752)
Value (surplus)/deficit realised	**(265)**	66
Value deficit written back on realisation	**178**	152
Change in value surplus	**270**	336
Carried interest	**(36)**	(32)
Movement for the year	**147**	522
Closing balance after tax	**(83)**	(230)

41 Own shares

	2005 £m
Opening cost	**55**
Additions	**25**
Disposals	**(3)**
31 March 2005	**77**

Investment in own shares consists of shares in 3i Group plc held by The 3i Group Employee Trust to meet its obligations under the Group's share schemes. The market value of these shares at 31 March 2005 was £84 million (2004: £62 million). The Trustee has waived its right to receive dividends on the shares held by the Trust. The purchase of the shares is funded by an interest free loan from 3i Group plc.

42 Restatement of prior years

The effect of adopting FRS 17 and UITF 38 is set out on the following table:

Total return	Other financial income/ (costs) on pension plan 2004 £m	Actuarial (losses) on pension plan 2004 £m	Total return 2004 £m
Previously reported	–	–	531
Adoption of FRS 17	(3)	(4)	(7)
As restated	(3)	(4)	524

	Assets		Liabilities	Shareholders' funds		
Balance sheet	Own shares 2004 £m	Other assets 2004 £m	Defined benefit liabilities 2004 £m	Capital reserve 2004 £m	Revenue reserve 2004 £m	Own shares 2004 £m
Previously reported	55	80	–	2,337	391	–
Adoption of FRS 17	–	(27)	83	(111)	1	–
Adoption of UITF 38	(55)	–	–	–	–	(55)
As restated	–	53	83	2,226	392	(55)

43 Reconciliation of revenue profit before tax to net cash flow from operating activities

	2005 £m	2004 (as restated)* £m
Revenue profit before tax	**156**	136
Fees receivable and deal-related costs accounted for in the capital reserve	**18**	5
Administrative expenses allocated to the capital reserve	**(94)**	(91)
	80	50
Interest payable – revenue	**57**	51
	137	101
Depreciation of equipment and vehicles	**4**	5
Tax on investment income included within income from overseas companies	**(1)**	(1)
Interest received by way of loan notes	**(36)**	(28)
Additional pension contributions	**(60)**	(13)
Movement in prepayments and accrued income	**8**	3
Movement in accruals and deferred income	**(18)**	17
Movement in provisions for liabilities and charges	**7**	(2)
Reversal of losses of joint ventures less distribution received	**–**	1
Net cash inflow from operating activities	**41**	83

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 54.

44 Analysis of changes in financing during the year

	Share capital and share premium 2005 £m	Deposits and debt securities repayable after more than one year 2005 £m	Share capital and share premium 2004 £m	Deposits and debt securities repayable after more than one year 2004 £m
Opening balance	**666**	**1,550**	654	1,372
Exchange movements	**–**	**21**	–	(16)
Cash inflows from financing	**5**	**40**	12	367
Cash outflows from financing	**–**	**(32)**	–	(168)
Non-cash movements	**–**	**(6)**	–	(5)
Movement for the year	**5**	**23**	12	178
Closing balance	**671**	**1,573**	666	1,550

45 Reconciliation of net cash flows to movement in net debt

	2005 £m	2004 £m
Increase/(decrease) in cash in the year	**68**	(2)
Cash flow from management of liquid resources	**309**	15
Cash flow from debt financing	**59**	33
Cash flow from subordinated liabilities	**(4)**	(1)
Cash flow from finance leases	**1**	–
Change in net debt from cash flows	**433**	45
Foreign exchange movements	**(23)**	27
Non-cash changes	**1**	5
Movement in net debt in the year	**411**	77
Net debt at start of year	**(938)**	(1,015)
Net debt at end of year	**(527)**	(938)

46 Analysis of net debt

	1 April 2004 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	31 March 2005 £m
Cash and deposits repayable on demand	94	68	(1)	–	161
Treasury bills, other loans, advances and treasury debt securities	725	309	4	–	1,038
Deposits and debt securities repayable within one year	(160)	67	(3)	(6)	(102)
Deposits and debt securities repayable after one year	(1,550)	(8)	(21)	6	(1,573)
Subordinated liabilities repayable after one year	(45)	(4)	(2)	1	(50)
Hire purchase contracts	(2)	1	–	–	(1)
	(938)	433	(23)	1	(527)

47 Cash flows arising from management of liquid resources

	2005 £m	2004 £m
Other loans, advances and treasury debt securities	(309)	(15)
Net cash flow from management of liquid resources	(309)	(15)

48 Contingent liabilities

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	21	21	21	21

The Company has guaranteed the payment of principal, premium, if any, and interest on all the interest swap agreements of 3i Holdings plc. The Company has guaranteed the payment of principal, premium, if any, and interest on notes issued under the £2,000 million Note Issuance Programme by 3i Holdings plc and 3i International BV.

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £360 million and the €595 million revolving credit facilities. At 31 March 2005, 3i Holdings plc had drawn down £75 million (2004: £72 million) and £40 million (2004: £30 million) respectively under these facilities.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan ("the Plan") in respect of the liabilities of the Plan of 3i plc, the principal employer of this Plan.

At 31 March 2005, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

49 Commitments

	The Group 2005 £m	The Group 2004 £m	The Company 2005 £m	The Company 2004 £m
Share and loan investments	431	333	377	271

50 Special dividend

The Board proposes to pay a special dividend of 40.7p per share (approximately £250 million) conditional upon shareholders approving a resolution to consolidate the Company's ordinary shares and that resolution becoming unconditional.