Directors' remuneration report

Remuneration Committee

Composition and terms of reference The Remuneration Committee (the "Committee") comprises only independent non-executive Directors. Its members during the year to 31 March 2006 (the "year") were Mr F D Rosenkranz (the Committee Chairman), Mme C J M Morin-Postel, Sir Robert Smith, Mr F G Steingraber and Mr O H J Stocken. None of the Committee members 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 Management Committee. The Committee also determined the fees payable to the Chairman of the Board.

During the year the Committee considered and, where appropriate, made recommendations to the Board on the Company's framework of executive remuneration and its costs to ensure that remuneration policy continued to support the Group's strategy.

The Committee considered performance for the period against key performance indicators in assessing executive Director performance for bonus awards and reviewed the key performance indicators to be used for remuneration purposes for periods from 1 April 2006.

The Committee reviewed the long-term incentives available to executives. It agreed to the renewal of carried interest arrangements for a further period of two years from 1 April 2006 and approved the introduction of new co-investment arrangements for investment executives from the same date.

The Committee considered the impact of the adoption of International Financial Reporting Standards on performance conditions attached to outstanding share awards and determined appropriate adjustments to be made to awards and performance conditions as a result of the Company's return of capital and share consolidation. In each case, the aim of the Committee was to achieve neutrality of treatment, neither advantaging nor disadvantaging participants.

The Committee considered the impact on the Company's pension arrangements of the changes to taxation arrangements which came into force on 6 April 2006 and also reviewed pension arrangements generally in the light of recent legislative changes and other factors. The Company decided that the defined benefit contributory pension scheme operated in the UK would not be offered to new entrants from 1 April 2006.

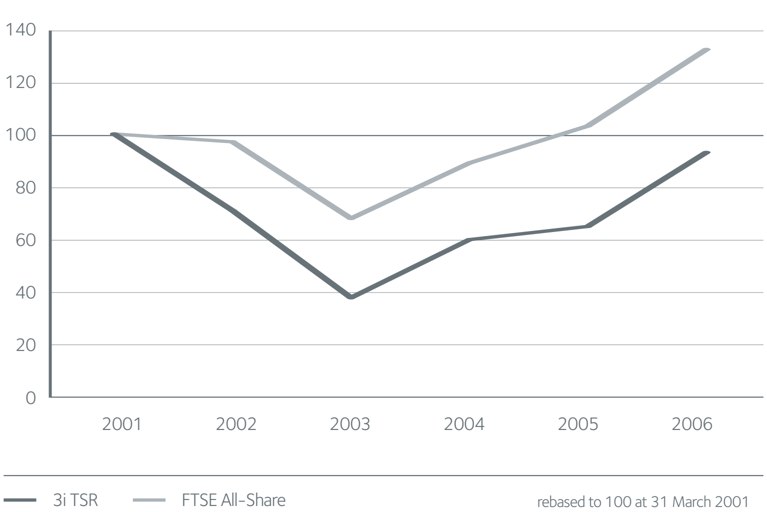
Further details of these matters are set out below. Details of Committee members' attendance at the Committee's meetings are set out in the Directors' report.

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; the Chief Executive, Mr P E Yea; and the Group's Human Resources Director, Ms D R Collis (Ms D R Collis was not appointed by the Committee). Baroness Hogg, Mr P E Yea and Ms D R Collis did not advise the Committee on their own remuneration. During the year, PwC also provided the Group's businesses with taxation advice, HR services, due diligence services and services of an employee on secondment.

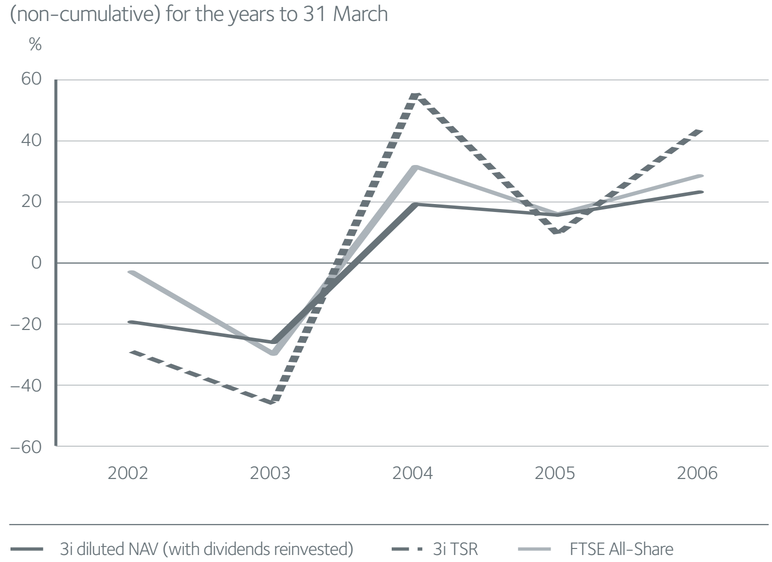
Background The Company operates in the private equity and venture capital sector and is a constituent of the FTSE 100 Index. The majority of the Company's competitors are either partnerships of individuals managing funds for investment on behalf of third parties or unquoted subsidiaries of larger banking or financial services groups. The private equity and venture capital sector continues to be well funded and the ability of trained and experienced executives to gain substantial rewards in the industry remains. Maintaining a remuneration structure to support the recruitment and retention of senior executives continues to be critical. In addition to cash bonuses, it is market practice for investment executives in the private equity and venture capital sector to be given the opportunity to participate in carried interest 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. These are often coupled with co-investment schemes, which require participants in carried interest schemes to put money of their own at risk.

The left hand graph below compares the Company's total shareholder return ("3i TSR") for the five financial years to 31 March 2006 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, this continues to be the most appropriate index against which to compare the Company's total shareholder return. Additional information is provided by the right hand graph below, which compares percentage changes in the Company's diluted net asset value per share over each of the last five financial years (with dividends reinvested), with the Company's total shareholder return and the FTSE All-Share Index total return over the same periods. This has been included as changes in net asset value have been one of the tests used in the Company's long-term incentive schemes.

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



3i diluted NAV, 3i total shareholder return and FTSE All-Share total return (non-cumulative) for the years to 31 March



Directors' remuneration policy The Committee has made no major changes in Directors' remuneration policy over the year, although implementation of that policy has continued to develop, notably with the introduction of co-investment plans for executives below Director level. The Committee has decided to seek shareholder approval at the 2006 AGM to the participation in co-investment plans of executive Directors responsible for investment businesses. These plans will ensure that senior executives cannot receive carried interest without putting some of their own money at risk. Further details are provided below.

Non-executive Directors The Company's policy for the financial year to 31 March 2007 (the "coming year") for non-executive Directors (including the Chairman) continues to be to pay fees which are competitive with the fees paid by other financial services 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 £40,000 per annum. The annual fee for membership of each of the Audit and Compliance, Remuneration and Valuations Committees was £3,000 and the annual fee for a Committee Chairmanship was £10,000. No fees were paid to Directors in respect of their membership of Nominations Committee.

Executive Directors The Company's policy for the coming year for executive Directors is to provide remuneration and other benefits sufficient to attract, retain and motivate executives of the calibre required. Variable remuneration (comprising annual cash bonuses, deferred share bonuses and long-term incentives) is intended to form a substantial component of total remuneration.

(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 Management Committee (including executive Directors) and other executive staff in the UK in the period from 31 March 2005 to 31 March 2006.

	% increase from 31 March 2005 to 31 March 2006
Management Committee (including executive Directors)	5.12%
Other UK executive staff	10.6%

Salaries for Chief Executive and Finance Director The Company's policy in the coming year in relation to the remuneration of the Chief Executive and Finance Director is to pay salaries comparable to those paid by other financial services companies of broadly similar UK market capitalisation. Salary supplements are paid to Mr P E Yea and Mr S P Ball to enable them to make additional pension provision.

Salaries for Directors responsible for investment business The Company's policy in the coming year in relation to the remuneration of Directors with responsibility for investment business is to provide salaries comparable to those paid in the private equity and venture capital industry.

(b) Annual bonuses Employees, including executive Directors, are eligible for discretionary annual bonuses. The Committee determines target bonuses for each executive Director at the beginning of each year. These are intended to be competitive with arrangements in the financial services industry or, in the case of Directors responsible for investment businesses, the private equity and venture capital industry. Target bonuses are achievable if corporate performance targets, personal performance targets and, in the case of Directors responsible for investment businesses, business targets are met. During the year, executive Directors' target bonuses were 90% of base salary except that the target bonus for the executive Director responsible for Growth Capital was 100%. Bonuses above target will only be paid for outstanding performance, and the maximum is twice the target bonus. Bonuses above 1.5 times target will be in 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 used to assess corporate performance for the year were: 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; and one to three year internal rate of return compared with performance of the private equity and venture capital industry as a whole. In forming its overall judgment the Committee also takes into account a number of more detailed indicators of performance and activity, such as the level of investment, realised profits and costs. The Committee's view, after reviewing performance of the Company against indicators outlined above, was that corporate performance merited bonus levels above target. As this report shows, total shareholder return was well ahead of the FTSE All-Share Index; total return was more than 50% up compared to the year to 31 March 2005, and the greater part of this came from non market-driven factors. The two main business lines (Buyouts and Growth Capital) performed ahead of their published return targets during the year, and IRR comparisons with the European private equity industry indicated strong outperformance by the Company over the three-year period. Realisations were very high, and investment was significantly higher than in the year to 31 March 2005. While costs had risen, these were mainly associated with the opening of new offices and the development of the Group's business lines (for example, establishing an infrastructure team) and increases in variable remuneration required to bring the Company more in-line with the private equity industry.

The Committee's combined assessment of corporate and personal performance in the year led to awards in the upper part of the bonus range for all three executive Directors. Within the maximum of 2 times target bonus, combined awards ranged from 1.7 to 1.83 times target, which translated into 1 times salary in cash and 0.53 to 0.75 times in shares deferred for two years.

For the coming year, the target bonuses for the Chief Executive and Finance Director will again be 90% of base salary (excluding salary supplements). In order to shift the remuneration of the executive Director responsible for Growth Capital further towards the private equity model, he will receive no increase in salary but an increase in his target bonus to 125% of base salary. Maximum bonuses for all executive Directors will continue to be twice target bonus.

(c) Long-term incentives The Committee determines the levels of long-term incentives. In the coming year, long-term incentive arrangements for the Chief Executive and Finance Director will consist of share options and performance share awards under The 3i Group Discretionary Share Plan ("the Discretionary Share Plan"). Executive Directors responsible for investment business are eligible to participate in carried interest arrangements, as approved by shareholders in 2004. Subject to shareholder approval at the 2006 AGM, executive Directors responsible for investment business will also be eligible to participate in co-investment arrangements and will then not be allowed to participate in carried interest arrangements unless they agree to participate in the co-investment arrangements.

The Discretionary Share Plan The Discretionary Share Plan is a shareholder approved executive share plan conforming with the Association of British Insurers' guidelines on dilution limits. The level of annual awards of options and performance shares is reviewed each year taking account of market practice, individual performance, the specific circumstances facing the Company and calculations of the relative fair values of share options and performance shares. During the year the Company's policy was that the maximum annual award of options should be market price options with an aggregate exercise price of six times salary or its equivalent fair value in performance shares. The performance targets for options and performance shares granted in the year are set out on pages 54 and 56 respectively. During the year awards with face values of approximately three times salary in share options and 1.1 times salary in performance shares were made to the Chief Executive and 4.8 times salary in share options and 0.4 times salary in performance shares were made to the Finance Director. In March 2005, the fair values of share options and performance shares under the Discretionary Share Plan were calculated and the fair value of a performance share at that time was estimated to be 1.9 times the fair value of an option. This ratio of fair values was used in finalising the long-term incentive awards granted in July 2005.

To clarify the framework, for the coming year the Committee proposes to maintain the limit of six times salary in nominal terms for an award made in share options and set a limit of three times salary for an award in performance shares, with any combination being subject to an overall limit on the fair value of all share-based awards in the year. For the coming year this limit will be two times salary. The Committee's remuneration consultant will calculate the fair values of share-based awards. At 31 March 2006, these fair values were calculated by the Committee's remuneration consultant to be 27% of face value for share options and 58% of face value for performance shares. These fair values are subject to re-calculation in changing market conditions.

Carried interest plans At the Company's AGM on 7 July 2004, shareholders approved the participation of executive Directors responsible 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 on an executive Director's participation are taken by the Committee taking into account market practice and the Director's investment responsibilities.

The carried interest plans are designed to follow best practice in the private equity and venture capital industry. The total carried interest, for all investment executives eligible to participate in each Plan, does not exceed 15% of the relevant pool of investments made over a specific period (usually two years). Participants are entitled to the profits made on the proportion of the total carried interest allocated to them subject to the satisfaction of a performance condition which is determined in advance by the Committee, in line with market conditions at the time of award. The proportion of total carried interest that is allocated to an executive Director depends on, among other things, the size of his investment team.

Following introduction of the co-investment arrangements referred to below, the Company's policy is that awards of carried interest will only normally be made to executives who have taken up the opportunity offered to them of participating in those co-investment arrangements.

Co-investment Plan Shareholder approval is being sought at the 2006 AGM to enable executive Directors responsible for investment business to participate in co-investment plans established for the Group's investment executives. Decisions on an executive Director's participation will be taken by the Committee taking into account market practice and the investment responsibilities of the executive Director concerned. If shareholder approval is granted, the policy of only normally awarding carried interest to executives who have taken up the opportunity to participate in co-investment arrangements will be extended to executive Directors.

Individuals will participate in co-investment plans by investing their own money in the plan relating to the area of the business in which they work. Plans will be organised by business line and geography with each plan investing in all investments made by the Group within the relevant business line and geography over a specified time period (usually two years). Normally participants will provide at least one third of the capital to finance the plans and the Group not more than two thirds. The plans will invest in investments alongside the Group on terms which are in all material respects the same as the terms on which the Group and its funds under management invest. For the period 2006 to 2008 the plans will fund 1% (2% in the US) of the total investment made by the Group and its funds under management, including the plans. Plans will share (in proportion to their investment) in the profits and losses made on those investments in the same way as the Group and its funds under management. Proceeds realised on investments made by the plans will be applied first to repaying the amount provided by the Group together with a management charge and a preferential return fixed by Remuneration Committee. For the period 2006 to 2008 this will be 2% over LIBOR (or equivalent) per annum compound. The remaining proceeds will be distributed to participants as a return on their investment.

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	(note 1) 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	**Total remuneration Year to 31 March 2006 £'000**	Total remuneration Year to 31 March 2005 £'000
Executive Directors								
P E Yea (note 5)	660	200	860	675	437	17	**1,989**	1,137
S P Ball (note 5)	427	62	489	420	223	2	**1,134**	128
M J Queen (notes 5 and 6)	466		466	400	300	2	**1,168**	884
Non-executive Directors								
Baroness Hogg (note 7)	260		260				**260**	220
O H J Stocken	90		90				**90**	83
Dr P Mihatsch	43		43				**43**	21
C J Morin-Postel	46		46				**46**	40
F D Rosenkranz	56		56				**56**	48
Sir Robert Smith	46		46				**46**	22
F G Steingraber	43		43				**43**	37
Former Directors								
Dr J R Forrest (until 7 July 2004)							**–**	11
M M Gagen (until 23 August 2004) (note 8)							**–**	325
B P Larcombe (until 7 July 2004)							**–**	437
R W Perry (until 6 July 2005) (notes 6 and 8)	146		146			4	**150**	761
Total	2,283	262	2,545	1,495	960	25	**5,025**	4,154

Notes

1 Mr P E Yea and Mr S P Ball received salary supplements to enable them to make additional pension provision.
2 Bonuses relate to the year to 31 March 2006 and are expected to be paid in June 2006.
3 Deferred share bonuses will be paid in shares in the Company, deferred for two years.
4 "Benefits in kind" were company car (Mr P E Yea and Mr R W Perry) and health insurance (Mr P E Yea, Mr S P Ball, Mr M J Queen and Mr R W Perry).
5 In addition to the salaries and fees disclosed, executive Directors retained fees from outside directorships as follows: Mr P E Yea, £55,417 (Vodafone Group plc); Mr S P Ball, £69,442 (Leica Geosystems AG); and Mr M J Queen, £48,765 (Northern Rock plc).
6 Salaries and fees for Mr M J Queen and Mr R W Perry include payments of deferred cash bonuses of £54,000 and £45,000 respectively granted in 1998, which became payable on exercise of deferred share bonus awards under the Management Equity Investment Plan as described on page 58.
7 Baroness Hogg's fees, which had remained unchanged at £220,000 per annum from her appointment as Chairman on 1 January 2002 to 31 March 2005, were increased to £260,000 per annum with effect from 1 April 2005.
8 Amounts payable to former Directors were as follows: Mr R W Perry, £95,000 (consultancy); Mr M M Gagen, £156,646 (payments equal to base salary for the period 1 April 2005 to 30 August 2005 paid in accordance with the terms of his former employment) and £63,349 (payments under interests in carried interest plans retained following cessation of employment); and Mr W J R Govett, £8,000 (director's fees from Gardens Pension Trustees Limited, a trustee of the 3i Group Pension Plan).

Options to subscribe for shares Options granted under the Company's executive share option plans entitle executives to acquire ordinary shares, at an exercise price based on market price at the date of grant, from the third until the tenth anniversaries of grant to the extent, normally, that a performance condition set at the time of grant has been satisfied over a three year performance period.

The performance condition for awards granted in the year was as follows:

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	30%
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%

This represented a toughening of the performance condition compared to the year to 31 March 2005 when the performance condition was the same save that the percentage of the award vesting at the minimum performance level was 50% instead of 30%.

For grants made between 1 April 2001 and 31 March 2004 the condition requires annual percentage compound growth in net asset value per share (with dividends reinvested) of RPI plus 5 percentage points to achieve minimum vesting of 50% of the award and growth of RPI plus 10 percentage points for full vesting. For these grants, if the minimum threshold for vesting is not achieved in the three years from grant, the period is extended to four and then five years 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.

These conditions are based on net asset value per share increases 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 is to approximate to the performance conditions attached to carried interest schemes in the private equity and venture capital industry whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The performance conditions were chosen as appropriately demanding in the prevailing market conditions at the time of grant.

Options held by Directors who held office during the year were as follows.

	Year of grant	Held at 1 April 2005	Granted during the year	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
P E Yea	2004	314,410	–	–	**314,410**	5.73		21.07.07	20.07.14
	2005		259,740	–	**259,740**	6.93		21.06.08	20.06.15
		314,410	259,740	–	**574,150**				
S P Ball	2005		245,022	–	**245,022**	6.53		17.05.08	16.05.15
	2005		48,100	–	**48,100**	6.93		21.06.08	20.06.15
		–	293,122	–	**293,122**				
M J Queen	1996	40,850*		40,850	**–**	4.50	9.18	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
	2005		44,733	–	**44,733**	6.93		21.06.08	20.06.15
		651,985	44,733	40,850	**655,868**				
R W Perry (until 6 July 2005)	1995	1,600*		1,600	**–**	3.61	6.57	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	06.07.06
	1997	58,378*		–	**58,378***	5.12		17.12.00	06.07.06
	1998	29,381*		–	**29,381***	5.67		16.12.01	06.07.06
	1999	10,734*		–	**10,734***	7.28		06.07.02	06.07.06
	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
		521,190	–	1,600	**519,590**				

The performance condition has not yet been met for those options shown in blue.
*Awarded before appointment as a Director.

Notes

1 The fair values of share option awards made in the year were as follows: Mr P E Yea, £462,600; Mr S P Ball, £496,867; and Mr M J Queen, £79,670. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the share options granted during the year was calculated as being 25.7% of the market value at the date of grant of the shares under option.

2 During the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p. This was designed to maintain the price per share, other things being equal, at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in option awards or the exercise price per share and options took effect following the consolidation as options over new ordinary shares of 53⅛p.

3 Options granted before 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 grant provided a performance condition has been met over a rolling three year period. This requires adjusted net asset value per share (after adding back dividends paid during the performance period) at the end of the three year period to equal or exceed 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%.

4 Options granted after 31 March 2001 were granted under the Discretionary Share Plan and the performance conditions are as set out above on page 54.

5 The Committee determines the fulfilment of performance conditions based on 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. Where accounting policies have altered between the beginning and end of the period, the Committee adjusts the net asset value calculations appropriately to ensure consistency. The Committee also has power to adjust the calculations to reflect circumstances including changes to the capital of the Company. During the year the Committee made appropriate adjustments to reflect the consolidation of the Company's share capital and the repurchase by the Company of its own shares.

6 On the retirement of Mr R W Perry on 6 July 2005, under the rules of the 1994 Plan, the exercise periods of options granted to him before 2000 altered so as to expire on 6 July 2006 and, under the rules of the Discretionary Share Plan, the exercise periods of the options granted to him in 2000 to 2004 altered so as to expire on the earlier of six months following the satisfaction of the performance condition and the original expiry date.

7 The mid-market price of shares in the Company at 31 March 2006 was 940.5p and the range during the period 1 April 2005 to 31 March 2006 was 635.5p to 970.5p. Aggregate gains made by Directors on share option exercises in the year (including on exercise of awards under the Management Equity Investment Plan detailed on page 58) were £199,158 (2005: £318,380). The amount attributable to the highest paid Director during the year was £Nil (amount attributable to the highest paid Director in 2005: £Nil). Options under the 1994 Plan and the Discretionary Share Plan were granted with exercise prices not less than prevailing market value. Options were granted at no cost to the option holder. No options held by Directors lapsed during the year.

8 As at 31 March 2006 there were no 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 24 million shares were available under the 10% dilution limit arising from those guidelines applicable to "all employee" plans. In addition, approximately 2.4 million unallocated shares were held in an employee trust and were available for awards under the Discretionary Share Plan.

Performance Share Awards These are awards of shares which are transferred to the participant subject to forfeiture in certain circumstances. Awards are subject to a performance condition determining whether awards vest. Non-vested shares are forfeited. Shares vest based on the Company's "percentage rank" by total shareholder return for three years from grant (averaged over a 60 day period) compared to a comparator group. This 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. At a percentage rank below 50% no shares vest. At a rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata. This condition was chosen to align the interests of participants and shareholders by linking remuneration to shareholder returns relative to a comparator index of which the Company is a constituent. The Committee will determine whether the condition has been met based on calculations prepared by the Committee's remuneration consultant.

	Held at 1 April 2005	(Note 2) Adjustment during the year	Granted during the year	Vested during the year	**Held at 31 March 2006 (or retirement if earlier)**	Market price on date of grant £	Date of vesting
P E Yea	179,663	(2,823)	–	–	**176,840**	5.73	21.07.07
			90,484	–	**90,484**	6.98	14.07.08
	179,663	(2,823)	90,484	–	**267,324**		
S P Ball	–	–	25,134	–	**25,134**	6.98	14.07.08
	–	–	25,134	–	**25,134**		
M J Queen	42,913	(675)	–	–	**42,238**	5.56	24.06.06
	89,552	(1,407)	–	–	**88,145**	6.03	23.06.07
	132,465	(2,082)	–	–	**130,383**		
R W Perry (until 6 July 2005)	26,408	–	–	–	**26,408**	5.56	24.06.06
	23,098	–	–	–	**23,098**	6.03	23.06.07
	49,506	–	–	–	**49,506**		

Notes

1 The fair values of performance share awards made during the year were as follows: Mr P E Yea, £310,737; and Mr S P Ball, £86,314. These fair values were calculated by the Committee's remuneration adviser using a Monte Carlo simulation based on appropriate assumptions. The fair value of the performance shares awarded during the year was calculated as being 49.2% of the market value at the date of award of the shares subject to the award.

2 Shares held at 1 April 2005 are ordinary shares of 50p each. "Adjustment during the year" refers to the change in the number of shares in the award resulting from the consolidation of the Company's shares on 11 July 2005 and the re-investment of the special dividend paid on 22 July 2005 in further shares which, in accordance with the rules of the Plan, are treated as forming part of the original award. Shares held at 31 March 2006 are ordinary shares of 53⅛p each.

3 During the year, the Committee agreed that ordinary dividends on performance share awards would be reinvested net of tax in further Company shares. These shares, which are in addition to the above performance share awards, are required to be held for the remaining vesting period to which they relate, but are not forfeitable. Such shares attributable to Directors during the year were as follows: Mr P E Yea, 2,629 shares; Mr S P Ball, 115 shares; and Mr M J Queen, 1,630 shares.

Share Incentive Plan The HM Revenue and Customs approved Share Incentive Plan is open to all eligible UK employees and is intended to encourage employees to invest in the Company's shares and is accordingly not subject to a performance condition. Participants invest up to £125 per month from pre-tax salary in shares ("partnership shares"). For each partnership share the Company grants two free shares ("matching shares") which are normally forfeited if employment ceases (other than on retirement) within three years of grant. Dividends are reinvested in further shares ("dividend shares").

	Held at 1 April 2005 Partnership shares	Held at 1 April 2005 Matching shares	Held at 1 April 2005 Dividend shares	**Held at 31 March 2006 Partnership shares**	**Held at 31 March 2006 Matching shares**	**Held at 31 March 2006 Dividend shares**
P E Yea	92	184	–	**276**	**555**	**35**
S P Ball	–	–	–	**154**	**310**	**4**
M J Queen	769	1,538	74	**913**	**1,827**	**268**
R W Perry (until 6 July 2005)	785	1,570	78	**842***	**1,684***	**78***

*As at his retirement date.

Notes

1 Shares at 1 April 2005 were ordinary shares of 50p each. On 11 July 2005 shares in the plan were consolidated on the same basis as the Company's other issued shares. Shares at 31 March 2006 were ordinary shares of 53⅛p.

2 In the period from 1 April 2006 to 3 May 2006 inclusive, Mr P E Yea, Mr S P Ball and Mr M J Queen have acquired a further 14, 13 and 14 partnership shares and 28, 26 and 28 matching shares respectively. During the year, shares were awarded at prices between 645.67p and 955.33p per share and with an average price of 756.91p per share.

Carried interest plans The operation of the Group's carried interest plans is described on page 53. In the table below scheme interests of Directors who served in the year are expressed in terms of a percentage of the relevant pool of investments in respect of which the participant is entitled to the profits subject to fulfilment of relevant conditions. The conditions include a requirement that, normally, before any payment to a participant becomes due, the Group (and funds under its management) must first have received back the amount of its investment in the relevant vintage together with a 1.5% per annum management charge and a hurdle rate of return of 8% per annum compound on its investment.

The table also shows the accrued value of the interest at the end of the year. This accrued value is calculated on the basis set out in note G on page 67. Accrued values can increase and decrease with investment valuations and other factors and will not necessarily lead to a payment of that amount to the participant.

Interests of Directors in carried interest plans during the year were as follows.

	Scheme interests, being the percentage of the investment vehicle held which in turn invests in a pool of investments and is entitled to participate in the realised profits					
	As at 1 April 2005	Awarded in year	**As at 31 March 2006**	End of period over which interests may vest	Amounts receivable in respect of scheme interests vested in year £	**Accrued value of Scheme interest as at 31 March 2006 £**
M J Queen						
Pan-european Growth Capital Carry Scheme 2005-06	Nil	80%	**80%**	01.04.10	Nil	**Nil**
Infrastructure 2005-06	Nil	18.5%	**18.5%**	26.07.10	Nil	**Nil**

Pension arrangements The executive Directors are members of the 3i Group Pension Plan which is a defined benefit contributory scheme which from 1 April 2006 will not be offered to new entrants. For members who joined the plan before 1 September 2002, the plan provides for a pension, subject to HM Revenue & Customs limits, of two thirds of final pensionable salary (limited, in the case of members joining on or after 1 June 1989, to a plan earnings cap) on retirement (normally at age 60) after 25 years' service and less for service under 25 years. For members who joined the plan from 1 September 2002 up to 31 March 2006 inclusive (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). 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 9 to the financial statements on pages 74 and 75.

Pension entitlements of Directors who served during the year are set out 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 the actuaries 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. The Trustees of the plan strengthened the transfer value basis during the course of the year and so the value placed on £1 per annum of pension at the end of the year was greater, for these members, by about 30% to 35% than at the start of the year. Therefore the figures in the final column below should be interpreted bearing this in mind.

	(note 1) **Age at 31 March 2006**	(note 1) **Complete years of pensionable service at 31 March 2006**	(notes 1 and 2) **Increase in accrued pension (excluding inflation) during the year to 31 March 2006 £'000 p.a.**	(notes 1 and 3) **Total accrued pension at 31 March 2006 £'000 p.a.**	(note 1) **Director's own contributions (excluding AVCs) paid into the plan during the year to 31 March 2006 £'000**	(notes 1 and 2) **Increase in accrued pension (including inflation) during the year to 31 March 2006 £'000 p.a.**	(note 4) **Transfer value of the accrued benefits at 31 March 2006 £'000**	(note 5) Transfer value of the accrued benefits at 31 March 2005 £'000	(note 6) Difference between transfer values at start and end of the accounting year, less Director's contribution £'000
P E Yea	**51**	**1**	**2.2**	**3.7**	**5.3**	**2.2**	**58.7**	18.1	35.3
S P Ball	**45**	**1**	**2.2**	**2.5**	**5.3**	**2.2**	**31.6**	3.1	23.2
M J Queen	**44**	**18**	**10.4**	**200.0**	**13.0**	**15.4**	**2,441.7**	1,613.7	815.0
R W Perry (until 24 April 2005 – see note 1)	**59**	**19**	**1.5**	**182.9**	**0.7**	**1.9**	**4,160.8**	4,076.7	83.4

Notes

1 In the case of Mr R W Perry, 24 April 2005, being the date on which he left pensionable service.
2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60.
3 The pensions shown are deferred pensions payable from age 60.
4 The transfer values have been calculated on the basis of actuarial advice in accordance with the relevant professional guidance applicable at 31 March 2006 (Actuarial Guidance Note GN11 (version 9.1)). Mr Perry ceased pensionable service in the plan on 24 April 2005 and transferred out the cash equivalent transfer value of his benefits on 3 May 2005. The figure shown for him is the transfer value paid on 3 May 2005.
5 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)).
6 In the case of Mr Perry, the difference between the transfer value at the start of the year and the transfer value that was paid out in respect of him on 3 May 2005, less his own contributions.
7 Additional voluntary contributions are excluded from the above table.
8 The pensions shown above become payable at a Normal Retirement Age of 60. 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 Non-executive Directors, including the Chairman, hold office under the Company's Articles of Association and do not have service contracts. Their appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

Company policy is that executive Directors' notice periods should not normally exceed one year. Mr P E Yea, Mr S P Ball and Mr M J Queen have employment contracts with 3i plc dated 27 July 2004, 19 April 2005 and 22 June 1987 respectively. These contracts are terminable on 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. There are no provisions for compensation of executive Directors on early termination save that 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 retiring on 6 July 2005 aged 60, Mr R W Perry had an employment contract with 3i plc dated 1 July 1985 which was terminable on 12 months' notice given by the Company or six months' notice given by Mr Perry. The contract contained no provision for compensation on early termination, save that the Company could elect to give pay in lieu of notice.

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 details historic awards held by Directors under the Management Equity Investment Plan.

Deferred share bonuses under the Management Equity Investment Plan Until 31 March 2001 executives could be awarded part of their annual bonus in deferred shares under the Management Equity Investment Plan. Awards were reported each year as remuneration for the year to which they related. There was no performance condition since the award was a bonus already earned. Awards comprised options issued by an employee benefit trust to acquire shares at nil cost after three years provided, in the case of executive Directors, they had maintained an agreed shareholding for the three year period. In 1998 market value options were granted together with a deferred cash bonus which was payable only to fund the exercise price payable on exercise.

	Year of grant	Held at 1 April 2005	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
M J Queen	1998	8,144	8,144	**–**	6.63	7.025	15.06.01	14.06.05
		8,144	8,144	**–**				
R W Perry (until 6 July 2005)	1998	6,787*	6,787	**–**	6.63	6.61	15.06.01	14.06.05
	2000	5,819	–	**5,819**	Nil		28.06.03	05.07.06
	2001	3,600	–	**3,600**	Nil		09.08.04	05.07.06
		16,206	6,787	**9,419**				

*Awarded before appointment as a Director.

Notes

1 In the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation, of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p, which was designed, other things being equal, to maintain the price per share at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in awards.

2 On Mr R W Perry's retirement on 6 July 2005, the expiry dates of his 2000 and 2001 awards were altered so as to expire on 5 July 2006.

3. The deferred cash bonuses paid to Mr M J Queen and Mr R W Perry on the exercise of their 1998 deferred share bonuses are disclosed in note 6 on page 54.

Performance linked awards under the Management Equity Investment Plan Until 2000, executives could also receive awards linked to longer term Group performance under the Management Equity Investment Plan. Participants were awarded options by an employee benefit trust to acquire shares at nil cost after five years subject to a performance condition.

	Year of grant	(note 1) Held at 1 April 2005	Exercised during the year	**Held at 31 March 2006 (or retirement if earlier)**	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
M J Queen	2000	25,776	–	**25,776**	Nil		28.06.05	27.06.07
		25,776	–	**25,776**				
R W Perry (until 6 July 2005)	1999	543*	–	**543***	Nil		23.07.04	05.07.06
	2000	21,054	–	**21,054**	Nil		28.06.05	05.07.06
		21,597	–	**21,597**				

*Awarded before appointment as a Director.

Notes

1 In the year a special dividend of 40.7p per ordinary share of 50p was paid. This was followed by a share consolidation, of 16 new ordinary shares of 53⅛p for every 17 ordinary shares of 50p, which was designed, other things being equal, to maintain the price per share at the same level after the special dividend as before it. As a result of this consolidation there was no need to adjust the number of shares comprised in option awards.

2 1999 awards are shown to the extent (64.6%) that they vested in accordance with the performance condition. It has not yet been determined if and to what extent the 2000 awards will vest and they are shown in full.

3 On Mr R W Perry's retirement on 6 July 2005, the expiry dates of his awards were altered to 5 July 2006.

Under the performance condition no shares vest unless the Company's total shareholder return over a three year performance period (averaged over the six months before the beginning and end of the period) equals or exceeds the compounded annual increase in the RPI over the period + 6% per annum. At this level 35% of the shares vest and all shares vest if the return equals or exceeds RPI + 20% per annum. Between these levels, a proportion of shares vest. If the minimum performance condition is not achieved over the three year period, the performance period is 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 condition was chosen as being suitably demanding at that time whilst aligning the interests of participants and shareholders. The Group's Human Resources department calculates whether performance conditions have been satisfied and this calculation is audited by Ernst & Young LLP.

Audit The tables in this report (including the notes thereto) on pages 54 to 58 have been audited by Ernst & Young LLP.

By Order of the Board

F D Rosenkranz
Chairman, Remuneration Committee

10 May 2006