

# Notes to the financial statements

## 1 Segmental analysis

	Buyouts 2006 £m	Growth Capital 2006 £m	Venture Capital 2006 £m	Smaller Minority Investments 2006 £m	Total 2006 £m
<b>Year to 31 March 2006</b>					
<b>Gross portfolio return</b>					
Realised profits over value on the disposal of investments	208	232	72	64	576
Unrealised profits on the revaluation of investments	124	60	51	10	245
Portfolio income	115	49	5	63	232
	447	341	128	137	1,053
<b>Net (investment)/divestment</b>					
Realisation proceeds	877	855	207	268	2,207
New investment	(451)	(497)	(156)	(6)	(1,110)
	426	358	51	262	1,097
<b>Balance sheet</b>					
Value of investment portfolio	1,465	1,284	826	564	4,139

	Buyouts 2005 (as restated)* £m	Growth Capital 2005 (as restated)* £m	Venture Capital 2005 (as restated)* £m	Smaller Minority Investments 2005 (as restated)* £m	Total 2005 (as restated)* £m
<b>Year to 31 March 2005</b>					
<b>Gross portfolio return</b>					
Realised profits over value on the disposal of investments	103	110	35	2	250
Unrealised profits on the revaluation of investments	122	109	37	(23)	245
Portfolio income	76	66	4	86	232
	301	285	76	65	727
<b>Net (investment)/divestment</b>					
Realisation proceeds	505	443	156	198	1,302
New investment	(338)	(263)	(143)	(11)	(755)
	167	180	13	187	547
<b>Balance sheet</b>					
Value of investment portfolio	1,521	1,292	748	756	4,317

\*As restated for the adoption of IFRS.

	UK 2006 £m	Continental Europe 2006 £m	US 2006 £m	Asia 2006 £m	Total 2006 £m
<b>Year to 31 March 2006</b>					
<b>Gross portfolio return</b>					
	392	586	27	48	1,053
<b>Net (investment)/divestment</b>					
Realisation proceeds	1,173	891	76	67	2,207
New investment	(409)	(540)	(70)	(91)	(1,110)
	764	351	6	(24)	1,097
<b>Balance sheet</b>					
Value of investment portfolio	1,740	1,925	307	167	4,139

	UK 2005 (as restated)* £m	Continental Europe 2005 (as restated)* £m	US 2005 (as restated)* £m	Asia 2005 (as restated)* £m	Total 2005 (as restated)* £m
<b>Year to 31 March 2005</b>					
<b>Gross portfolio return</b>					
	502	230	3	(8)	727
<b>Net (investment)/divestment</b>					
Realisation proceeds	897	365	34	6	1,302
New investment	(334)	(341)	(51)	(29)	(755)
	563	24	(17)	(23)	547
<b>Balance sheet</b>					
Value of investment portfolio	2,258	1,693	277	89	4,317

\*As restated for the adoption of IFRS.

## 2 Realised profits over value on the disposal of investments

	Equity 2006	Loans and receivables 2006	Total 2006	Equity 2005 (as restated)*	Loans and receivables 2005 (as restated)*	Total 2005 (as restated)*
	£m	£m	£m	£m	£m	£m
Net proceeds	1,643	564	2,207	919	383	1,302
Valuation of disposed investments	(981)	(584)	(1,565)	(652)	(363)	(1,015)
Investments written off	(20)	(46)	(66)	(14)	(23)	(37)
	642	(66)	576	253	(3)	250

\*As restated for the adoption of IFRS.

## 3 Unrealised profits on the revaluation of investments

	Equity 2006	Loans and receivables 2006	Total 2006	Equity 2005 (as restated)*	Loans and receivables 2005 (as restated)*	Total 2005 (as restated)*
	£m	£m	£m	£m	£m	£m
Movement in the fair value of equity	381	–	381	440	–	440
Impairment of loans and receivables	–	(74)	(74)	–	(129)	(129)
Provisions	(40)	(22)	(62)	(28)	(38)	(66)
	341	(96)	245	412	(167)	245

\*As restated for the adoption of IFRS.

Provisions have been recognised on investments where it is considered there is a significant risk of failure.

## 4 Fees receivable

	2006	2005 (as restated)*
	£m	£m
Fees receivable	39	36
Deal-related costs	(15)	(9)
	24	27

\*As restated for the adoption of IFRS.

Fees receivable include fees arising from the ongoing management of the portfolio together with fees arising from making investments. Deal-related costs represent fees incurred in the process to acquire an investment.

## 5 Carried interest

	Realised 2006	Unrealised 2006	Total 2006	Realised 2005 (as restated)*	Unrealised 2005 (as restated)*	Total 2005 (as restated)*
	£m	£m	£m	£m	£m	£m
Carried interest receivable from managed funds	48	31	79	2	–	2
Carried interest payable to executives	(40)	(24)	(64)	(30)	(36)	(66)
	8	7	15	(28)	(36)	(64)

\*As restated for the adoption of IFRS.

Carried interest receivable represents the Group's share of profits from managed funds. Each managed fund is reviewed at the balance sheet date and income is accrued based on fund profits in excess of the performance conditions within the fund, taking into account cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest payable represents the amounts payable to executives from the Group's carried interest schemes. As with carried interest receivable, each scheme is separately reviewed at the balance sheet date, and an accrual made equal to the executives' share of profits in excess of the performance conditions in place in the scheme.

The above table shows carried interest on realised and unrealised assets.

## 6 Operating expenses

Operating expenses include the following amounts:

	2006	2005 (as restated)*
	£m	£m
<b>Depreciation of property, plant and equipment</b>		
Owned assets	4	3
Under finance leases	–	1

\*As restated for the adoption of IFRS.

**Services provided by the Group's auditor** During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP:

	2006	2005 (as restated)*
	£m	£m
<b>Audit services</b>		
Statutory audit – UK	0.9	0.7
– overseas	0.4	0.3
Audit-related regulatory reporting	0.1	0.1
	1.4	1.1
<b>Non-audit services</b>		
Investment due diligence	0.9	0.2
Tax services (compliance and advisory services)	0.1	0.1
	2.4	1.4

\*As restated for the adoption of IFRS.

**Audit services** The Group's auditor received £0.3 million (2005: £0.2 million) for the statutory audit of the Company.

**Non-audit services** These services are services that could be provided by a number of firms, including general consultancy work. Work is allocated to the auditors only if it does not impact the independence of the audit team. Due diligence provided by the auditors is carried out by teams which are independent of the audit process.

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

Included in the above are fees paid to the Group's auditor in respect of non-audit services in the UK of £0.4 million (2005: £0.2 million).

**Auditor independence** In addition to the above the Group has identified £0.4 million (2005: £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. Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditor for audit services to the pension scheme during the year were less than £0.1 million (2005: less than £0.1 million).

## 7 Staff costs

	2006	2005 (as restated)*
	£m	£m
Wages and salaries	91	82
Social security costs	14	10
Share-based payment cost (note 8)	8	6
Pension costs (note 9)	15	15
	128	113

\*As restated for the adoption of IFRS.

The average number of employees during the year was 733 (2005: 763).

Wages and salaries shown above include salaries paid in the year and bonuses relating to the year. These costs are charged against operating expenses.

## 8 Share-based payments

### Equity-settled share option schemes

**Share options** The Group has a number of share option schemes that entitle employees to purchase shares in the Group. Options are exercisable at a price equal to the market value of the Company's shares on the date of grant. Each of the schemes has different vesting periods and conditions and these are summarised below:

**The 3i Group 1994 Executive Share Option Plan** Options granted between 1 January 1995 and 31 March 2001 were granted under this Plan and are normally exercisable between the third and tenth anniversaries of the date of grant provided that a performance condition has been met over a rolling three year period. This requires that the adjusted net asset value per share (after adding back dividends paid during the three year performance period) at the end of the three year period is equal to or in excess of the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in the RPI plus 4%.

**The 3i Group Discretionary Share Plan** Options granted after 31 March 2001 were granted under the Discretionary Share Plan and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. For options granted between 1 April 2001 and 31 March 2003 and for options granted to three Directors in June 2003, if the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant but from the same base year. For options granted between 1 April 2003 and 31 March 2004 the performance period is extended to four years from the date of grant. For options granted after 31 March 2004, there is no opportunity for the performance condition to be retested after the three year performance period.

Options granted between 1 April 2001 and 31 March 2003 were subject to a performance condition that options would vest if the annual compound growth ("ACG") in net asset value per share with dividends re-invested was RPI plus 5%. If this target was achieved then 50% of the options would vest. If the ACG was in excess of RPI plus 10% then the maximum number of shares would vest. Options would vest pro rata if the ACG was between these two amounts. For options granted after 31 March 2003 the target ACG was RPI plus 3% with maximum vesting at RPI plus 8%, except for options granted to three Directors in June 2003 where the target ACG was RPI plus 5% with maximum vesting at RPI plus 10%. Details of all share options outstanding during the year are as follows:

	2006 Number of share options	2006 Weighted average exercise price (pence)	2005 Number of share options	2005 Weighted average exercise price (pence)
Outstanding at start of the year	24,943,522	739	22,919,966	761
Granted	3,597,145	692	4,687,971	600
Exercised	(2,270,547)	543	(704,603)	858
Lapsed	(965,962)	868	(1,959,812)	470
Outstanding at end of the year	25,304,158	745	24,943,522	739
Exercisable at end of the year	4,860,952	837	4,007,987	540

## 8 Share-based payments (continued)

Included within this balance are options over 13 million (2005: 16 million) shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

The range of exercise prices for options outstanding at the end of the year was:

Year of grant	Weighted average exercise price (pence)	2006	2005
Year ended 31 March		Number	Number
1996	–	–	72,750
1997	457	<b>249,400</b>	872,422
1998	513	<b>964,373</b>	1,626,095
1999	623	<b>919,449</b>	1,595,624
2000	810	<b>1,235,026</b>	1,673,164
2001	1,341	<b>1,378,598</b>	1,610,538
2002	999	<b>5,119,104</b>	5,234,362
2003	663	<b>3,802,071</b>	3,885,130
2004	570	<b>3,694,970</b>	3,819,565
2005	599	<b>4,402,076</b>	4,553,872
2006	692	<b>3,539,091</b>	–
	745	<b>25,304,158</b>	24,943,522

The weighted average share price at the date of exercise during the year was 850p (2005: 645p). The options outstanding at the end of the year have a weighted average contractual life of 6.35 years (2005: 6.47 years). The cost of share options is spread over the vesting period of three to five years. The weighted average fair value of options granted during the year was 218p (2005: 193p). These fair values were calculated using the Black-Scholes option pricing model.

The inputs to this model were as follows:

	2006	2005
Weighted average share price (£)	<b>692</b>	600
Weighted average option price (£)	<b>692</b>	600
Average expected volatility (%)	<b>27</b>	29
Expected life (years)	<b>8.5</b>	8.5
Average risk free rate (%)	<b>4.3</b>	5.0
Average expected dividend yield (%)	<b>2.0</b>	2.5

The expected life of the option is based on the best estimate of the Directors following a review of the profile of the award holders. Expected volatility was determined using an average of the implied volatility on grant and historic share price volatility of the preceding 8.5 years. No options have been repriced during the year (2005: nil). All share options are equity settled.

**Performance share awards** Performance share awards are awards of shares to executive Directors which are transferred to the participant by an employee benefit trust on terms that the shares may, in certain circumstances, be forfeited. While the shares are subject to forfeiture they may not be sold, transferred or used as security. Awards are subject to a performance condition determining whether and to what extent the award will vest. Non-vested shares are forfeited. The performance condition provides for shares to vest based on the Company's "percentage rank" by total shareholder return for the period of three years from grant (averaged over a 60 day period) compared to a comparator group.

The comparator group consists of the FTSE100 Index constituents at the grant date (adjusted for mergers, demergers and delistings during the performance period). A company's percentage rank is its rank in the comparator group divided by the number of companies in the group at the end of the performance period expressed as a percentage. If the Company's percentage rank is less than 50% none of the shares vest. At a percentage rank of 50%, 35% of the shares vest and at 75% all the shares vest. Between these points shares vest pro rata.

## 8 Share-based payments (continued)

	2006 Number of shares	2005 Number of shares
Outstanding at start of the year	<b>443,107</b>	144,585
Granted	<b>152,865</b>	336,154
Forfeited	<b>(35,418)</b>	(37,632)
Outstanding at end of the year	<b>560,554</b>	443,107

The shares outstanding at the end of the year have a weighted average contractual life of 1.64 years (2005: 0.96 years). The cost of these shares is spread over the vesting period of three years.

The weighted average fair value of shares granted during the year was 343p (2005: 270p).

These fair values were calculated using the Monte Carlo option pricing model. The inputs to this model were as follows:

	2006	2005
Expected volatility (%)	<b>24</b>	40
Expected life (years)	<b>3</b>	3
Risk free rate (%)	<b>4.5</b>	4.8
Expected dividend yield (%)	<b>2.0</b>	2.0

In the current financial year expected volatility was determined using an average of the implied volatility and historic volatility of the Company's share price over the preceding three years, whereas in the prior year it was based on the historic volatility only. The expected volatility of the comparator group is 35% (2005:35%).

**Share incentive plan** Eligible UK employees may participate in an Inland Revenue approved Share Incentive Plan intended to encourage employees to invest in the Company's shares and which accordingly is not subject to a performance condition. During the year participants could invest up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company granted two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than by reason of retirement) within three years of grant. Dividends are re-invested on behalf of participants in further shares (referred to as dividend shares).

The Company issues shares to cover the matching shares. The fair value of matching shares is the share price at the date of the award.

	2006 Number of shares	2005 Number of shares
Outstanding at start of the year	<b>424,575</b>	343,789
Granted	<b>120,567</b>	141,992
Exercised	<b>(78,857)</b>	(44,670)
Lapsed	<b>(17,138)</b>	(16,536)
Outstanding at end of the year	<b>449,147</b>	424,575

The average purchase price of the shares during the year was 798p (2005: 681p).

**Deferred bonus share awards** Certain employees receive an element of their bonus as shares. These shares are held in trust for two years. The Company purchases shares to cover the deferred shares awarded and these are held in the 3i Group Employee Trust in a nominee capacity. The fair value of the deferred shares is the share price at the date of the award.

**8 Share-based payments (continued)**

	2006 Number of shares	2005 Number of shares
Held in nominee capacity at start of the year	–	–
Awarded	<b>85,957</b>	–
Transferred to employee	–	–
Held in nominee capacity at end of year	<b>85,957</b>	–

The weighted average fair value of the shares awarded during the year was 698p (2005: nil).

**Share trust** The Group has a trust that is used to hold shares in 3i Group plc to meet its obligations under the above share schemes.

**Total costs** The total cost recognised in profit or loss for each of the share schemes is shown below. The cost is borne mainly by 3i plc, the main operating company of the Group.

	2006 £m	2005 £m
Share options	<b>6.1</b>	5.0
Performance shares	<b>0.6</b>	0.3
Share incentive plan	<b>0.7</b>	0.9
Deferred bonus shares	<b>0.6</b>	–
	<b>8.0</b>	6.2

**9 Retirement benefit obligation****Retirement benefit plans**

**Defined contribution plans** The Group operates a number of defined contribution retirement benefit plans for qualifying employees outside the UK. A new defined contribution scheme for UK employees was set up on 1 April 2006. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state-managed retirement benefit plan operated by the country's government. The French subsidiary is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group is to make the contributions.

The total expense recognised in profit or loss is £4 million (2005: £3 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date.

**Defined benefit scheme** The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK. The Plan is not offered to new employees joining 3i on or after 1 April 2006. The Plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees.

The last full actuarial valuation at 30 June 2004 was updated for 31 March 2006 on an IAS 19 basis by an independent qualified actuary.

The principal assumptions made by the actuaries used for the purpose of the year end valuation were as follows:

	2006	2005
Discount rate	<b>4.6%</b>	5.4%
Expected rate of salary increases	<b>4.2%</b>	4.5%
Expected rate of pension increases	<b>3.0%</b>	3.1%
Price inflation	<b>2.7%</b>	3.0%
Expected return on Plan assets	<b>5.7%</b>	6.4%

The post-retirement mortality assumptions used to value the benefit obligation at 31 March 2005 and 31 March 2006 are based on the "PA92 medium cohort" table with a current year of use.

**9 Retirement benefit obligation (continued)**

The amount recognised in the balance sheet in respect of the Group's defined benefit plans is as follows:

	2006 £m	2005 £m
Present value of funded obligations	<b>472</b>	390
Fair value of Plan assets	<b>(455)</b>	(367)
	<b>17</b>	23

Amounts recognised in profit or loss in respect of the defined benefit plan are as follows:

	2006 £m	2005 £m
Operating costs		
Current service costs	<b>11</b>	10
Past service cost	–	2
Net finance costs		
Expected return on Plan assets	<b>(23)</b>	(21)
Interest on obligation	<b>21</b>	20
Statement of recognised income and expenses		
Actuarial loss	<b>16</b>	1
	<b>25</b>	12

Changes in the present value of the defined benefit obligation were as follows:

	2006 £m	2005 £m
Opening defined benefit obligation	<b>390</b>	355
Current service cost	<b>11</b>	10
Past service cost	–	2
Interest cost	<b>21</b>	20
Actuarial losses	<b>63</b>	14
Contributions	<b>1</b>	–
Benefits paid	<b>(14)</b>	(11)
Closing defined benefit obligation	<b>472</b>	390

Changes in the fair value of the Plan assets were as follows:

	2006 £m	2005 £m
Opening fair value of Plan assets	<b>367</b>	272
Expected returns	<b>23</b>	21
Actuarial gains	<b>48</b>	13
Contributions	<b>31</b>	72
Benefits paid	<b>(14)</b>	(11)
Closing fair value of Plan assets	<b>455</b>	367

Contributions paid to the Group Pension Plan are related party transactions as defined by IAS 24 Related party transactions ("IAS 24").

The fair value of the Plan assets at the balance sheet date is as follows:

	2006 £m	2005 £m
Equities	<b>245</b>	205
Gilts	<b>190</b>	162
Cash equivalents	<b>20</b>	–
	<b>455</b>	367

The Plan assets do not include any of the Group's own equity instruments nor any property in use by the Group. The expected rate of returns on individual categories of Plan assets is determined by reference to individual indices.

## 9 Retirement benefit obligation (continued)

The history of the Plan for the current and prior period is as follows:

	2006 £m	2005 £m
Present value of defined benefit obligation	472	390
Fair value of Plan assets	(455)	(367)
<b>Deficit</b>	<b>17</b>	<b>23</b>
Experience adjustments on Plan liabilities	–	(4)%
Experience adjustments on Plan assets	(11)%	(4)%

In accordance with the transitional provisions for the amendment to IAS 19 Retirement Benefits in December 2004, the disclosures above are from the transition date of 1 April 2004.

The Group expects to make contributions of approximately £10 million to the Plan in the year to 31 March 2007.

Employees in Germany are entitled to a pension based on their length of service. 3i Deutschland GmbH contributes to individual investment policies for its employees and has agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of 3i Deutschland GmbH's investment policies intended to cover pension liabilities is £3 million (2005: £2 million) and the future liability calculated by German actuaries is £4 million (2005: £3 million). The Group carries both the asset and liability in its consolidated financial statements.

## 10 Net interest receivable/(payable)

	2006 £m	2005 (as restated)* £m
<b>Treasury interest receivable</b>		
Interest on bank deposits	55	46
<b>Interest payable</b>		
Interest on loans and borrowings	(58)	(73)
Interest on Convertible Bonds	(5)	(5)
Amortisation of Convertible Bonds	(8)	(8)
Interest on subordinated borrowings	(3)	(3)
Finance income on pension plan	2	1
	(72)	(88)
<b>Net interest receivable/(payable)</b>	<b>(17)</b>	<b>(42)</b>

\*As restated for the adoption of IFRS.

## 11 Movements in the fair value of derivatives

	2006 £m	2005 (as restated)* £m
Forward foreign exchange contracts	(3)	16
Currency swaps	6	3
Interest rate swaps	(6)	(17)
Derivative element of Convertible Bonds	(75)	11
	(78)	13

\*As restated for the adoption of IFRS.

## 12 Exchange movements

	2006 £m	2005 (as restated)* £m
Exchange movements on items recorded in currencies different from the functional currency of the entity	47	13
<b>Total exchange movements in the income statement</b>	<b>47</b>	<b>13</b>
<b>Exchange differences on translation of foreign operations</b>	<b>(5)</b>	<b>5</b>
<b>Net exchange movement</b>	<b>42</b>	<b>18</b>

\*As restated for the adoption of IFRS.

## 13 Other income

	2006 £m	2005 (as restated)* £m
Write-back of subordinated borrowings	20	–
Gain on disposal of property	2	–
Gain on revaluation of investment property	–	1
	22	1

\*As restated for the adoption of IFRS.

## 14 Income taxes

	2006 £m	2005 (as restated)* £m
<b>Current tax</b>		
Current year	(3)	(3)
Adjustments in respect of previous periods	–	–
	(3)	(3)
<b>Deferred tax</b>		
Deferred income tax	–	–
<b>Total income taxes in the income statement</b>	<b>(3)</b>	<b>(3)</b>

\*As restated for the adoption of IFRS.

The tax charge for the period is different to the standard rate of corporation tax in the UK, currently 30% (2005: 30%), and the differences are explained below:

### Reconciliation of income taxes in the income statement

	2006 £m	2005 (as restated)* £m
Profit before tax	855	501
Profit before tax multiplied by rate of corporation tax in the UK of 30% (2005: 30%)	(256)	(150)
Effects of:		
Permanent differences	6	3
Short-term timing differences	1	(2)
Current period unutilised tax losses	(7)	(2)
Non-taxable UK dividend income	20	31
Repatriated profits of overseas subsidiaries	(1)	(7)
Foreign tax	(3)	(1)
Foreign tax credits available for double tax relief	1	1
Realised profits, changes in fair value and impairment losses not taxable	236	124
Adjustments to tax in respect of prior periods	–	–
<b>Total income taxes in the income statement</b>	<b>(3)</b>	<b>(3)</b>

\*As restated for the adoption of IFRS.

**14 Income taxes (continued)**

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non taxable.

	Consolidated balance sheet 2006	Consolidated balance sheet 2005 (as restated)*	Consolidated income statement 2006	Consolidated income statement 2005 (as restated)*
	£m	£m	£m	£m
<b>Deferred income tax assets</b>				
Tax losses	2	2	–	(1)
<b>Gross deferred income tax assets</b>	<b>2</b>	<b>2</b>		
<b>Deferred income tax liabilities</b>				
Unrealised valuation surpluses on investments	–	(1)	1	–
Income in accounts taxable in the future	(3)	(2)	(1)	1
<b>Gross deferred income tax liabilities</b>	<b>(3)</b>	<b>(3)</b>		
<b>Deferred tax income tax charge</b>			<b>–</b>	<b>–</b>

\*As restated for the adoption of IFRS.

At 31 March 2006 the Group had tax losses carried forward of £560 million (2005: £550 million). It is unlikely that the Group will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised. These tax losses are available to carry forward indefinitely.

**15 Investment portfolio**

	Group Equity investments 2006 £m	Group Loans and receivables 2006 £m	Group Total 2006 £m
<b>Opening book value</b>	<b>2,917</b>	<b>1,400</b>	<b>4,317</b>
Additions	464	646	1,110
Disposals, repayments and write-offs	(1,001)	(630)	(1,631)
Revaluation	341	–	341
Provision and impairment of loans and receivables	–	(96)	(96)
Other movements	52	46	98
<b>Closing book value</b>	<b>2,773</b>	<b>1,366</b>	<b>4,139</b>
Quoted	259	–	259
Unquoted	2,514	1,366	3,880
	<b>2,773</b>	<b>1,366</b>	<b>4,139</b>

Other movements includes foreign exchange, reclassifications of joint ventures and conversions from one instrument into another.

**15 Investment portfolio (continued)**

Additions to loans and receivables includes £45 million (2005: £36 million) interest received by way of loan notes. A corresponding amount has been included in income from loans and receivables.

	Group Equity investments 2005 (as restated)* £m	Group Loans and receivables 2005 (as restated)* £m	Group Total 2005 (as restated)* £m
Opening book value	2,900	1,462	4,362
Additions	294	461	755
Disposals, repayments and write-offs	(666)	(386)	(1,052)
Revaluation	412	–	412
Provision and impairment of loans and receivables	–	(167)	(167)
Other movements	(23)	30	7
Closing book value	2,917	1,400	4,317
Quoted	235	–	235
Unquoted	2,682	1,400	4,082
	<b>2,917</b>	<b>1,400</b>	<b>4,317</b>

\*As restated for the adoption of IFRS.

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the Directors have classified the portfolio as non-current. It is not possible to identify with certainty investments that will be sold within one year.

**16 Interest in joint ventures**

Two joint ventures were reclassified during the year, as described below.

The Group had a 50% equity share in DIAB Intressenter AB, a joint venture set up to acquire the assets and business of Atle AB, a Swedish venture capital company, with Ratos AB. DIAB Intressenter AB now holds a single investment in DIAB AB, and as such is considered a portfolio investment designated as fair value through profit or loss.

The Group had a 50% equity share in Atle Industri AB, a venture capital fund established with a joint venture partner Ratos AB to hold a small number of investments previously owned by Atle AB. As these investments are held and managed on the same basis as other portfolio investments, the joint venture has been reclassified as a portfolio investment designated as fair value through profit or loss.

	Group 2006 £m	Group 2005 (as restated)* £m
<b>Income statement</b>		
Realised profit over value on the disposal of investments	–	3
Unrealised profits on the revaluation of investments	(5)	16

	Group 2006 £m	Group 2005 (as restated)* £m
<b>Balance sheet</b>		
Interests in joint ventures	–	46
Represented by:		
Cost	–	121
Share of post acquisition retained surpluses less losses	–	(13)
Impairment	–	(62)
	<b>–</b>	<b>46</b>

\*As restated for the adoption of IFRS.



## 17 Interests in Group entities

	Equity investments £m	Long-term loans and receivables £m	Total £m
<b>Opening book value*</b>	<b>122</b>	<b>859</b>	<b>981</b>
Additions	122	452	574
Share of profits	–	71	71
Disposals and repayments	(22)	(147)	(169)
Impairment	–	(5)	(5)
Exchange movements	–	31	31
<b>Closing book value</b>	<b>222</b>	<b>1,261</b>	<b>1,483</b>

\*As restated for the adoption of IFRS.

Details of significant Group entities are given in note 37.

## 18 Property, plant and equipment

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Land and buildings</b>				
<b>Opening cost or valuation</b>	<b>25</b>	26	<b>25</b>	25
Additions at cost	1	–	–	–
Disposals	(17)	–	(17)	–
Revaluation	1	(1)	1	–
<b>Closing cost or valuation</b>	<b>10</b>	25	<b>9</b>	25
<b>Net book amount</b>	<b>10</b>	25	<b>9</b>	25

\*As restated for the adoption of IFRS.

Depreciation charged in the year on buildings was £0.1 million (2005: £0.1 million).

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Plant and equipment</b>				
<b>Opening cost or valuation</b>	<b>51</b>	59	–	–
Additions at cost	18	4	–	–
Disposals	(12)	(12)	–	–
<b>Closing cost or valuation</b>	<b>57</b>	51	–	–
<b>Opening accumulated depreciation</b>	<b>43</b>	50	–	–
Charge for the year	4	4	–	–
Disposals	(11)	(11)	–	–
<b>Closing accumulated depreciation</b>	<b>36</b>	43	–	–
<b>Net book amount</b>	<b>21</b>	8	–	–

\*As restated for the adoption of IFRS.

Assets held under finance leases (all vehicles) have the following net book amount:

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Cost</b>	<b>1</b>	2	–	–
<b>Aggregate depreciation</b>	<b>–</b>	(1)	–	–
<b>Net book amount</b>	<b>1</b>	1	–	–

\*As restated for the adoption of IFRS.

## 18 Property, plant and equipment (continued)

Finance lease rentals are payable as follows:

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Between one and five years	1	1	–	–

The Group's freehold properties and long leasehold properties are revalued at each balance sheet date by professional valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by CBRE and Howell Brooks, independent Chartered Surveyors.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the capital reserve.

## 19 Investment property

	Group 2006 £m	Group 2005 (as restated)* £m
<b>Opening book value</b>	<b>6</b>	5
Disposals	(6)	–
Revaluation	–	1
<b>Closing book value</b>	<b>–</b>	6

\*As restated for the adoption of IFRS.

During the year, the Group's remaining investment property was sold.

## 20 Other current assets

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Prepayments	92	62	57	47
Other debtors	57	54	89	90
Amounts due from subsidiaries	–	–	47	28
	<b>149</b>	116	<b>193</b>	165

\*As restated for the adoption of IFRS.



## 21 Financial risk management

The funding objective of the Group and Company is that each category of investment asset is broadly matched with liabilities and shareholders' funds according to the risk and maturity characteristics of the assets and that funding needs are met ahead of planned investment.

**Credit risk** 3i's financial assets are predominantly unsecured investments in unquoted companies, in which the Directors consider the maximum credit risk to be the carrying value of the asset. The portfolio is well diversified and for this reason credit risk exposure is managed on an asset-specific basis by investment managers.

**Liquidity risk** During the financial year 3i generated a surplus of £1,089 million (2005: £562 million) from its investing activities and cash resources at the end of the period amounted to £1,955 million (2005: £1,199 million). In addition, the Group had available to it undrawn facilities of £488 million at 31 March 2006 (2005: £764 million). The Directors currently view liquidity risk as low.

**Price risk** The valuation of unquoted investments depends upon a combination of market factors and the performance of the underlying asset. 3i does not hedge the market risk inherent in the portfolio but manages asset performance risk on an asset-specific basis.

**Foreign exchange risk** 3i reports in sterling and pays dividends from sterling profits. The Directors seek to reduce structural currency exposures by matching assets denominated in foreign currency with borrowings in the same currency. The Group makes some use of derivative financial instruments to effect foreign exchange management. The exposure to the Euro, US dollar, Swedish krona, Swiss franc and all other currencies combined is shown in the table below.

	Sterling 2006 £m	Euro 2006 £m	US dollar 2006 £m	Swedish krona 2006 £m	Swiss franc 2006 £m	Other 2006 £m	Total 2006 £m
Total assets	3,820	1,511	475	385	124	55	6,370
Total liabilities	(103)	(1,453)	(370)	(316)	(92)	(30)	(2,364)
<b>Net assets</b>	<b>3,717</b>	<b>58</b>	<b>105</b>	<b>69</b>	<b>32</b>	<b>25</b>	<b>4,006</b>

	Sterling 2005 (as restated)* £m	Euro 2005 (as restated)* £m	US dollar 2005 (as restated)* £m	Swedish krona 2005 (as restated)* £m	Swiss franc 2005 (as restated)* £m	Other 2005 (as restated)* £m	Total 2005 (as restated)* £m
Total assets	3,862	1,102	449	211	104	33	5,761
Total liabilities	(1,192)	(618)	(69)	(158)	–	(25)	(2,062)
<b>Net assets</b>	<b>2,670</b>	<b>484</b>	<b>380</b>	<b>53</b>	<b>104</b>	<b>8</b>	<b>3,699</b>

\*As restated for the adoption of IFRS.

**Cash flow interest rate risk** 3i has a mixture of fixed and floating rate assets. The assets are funded with a mixture of shareholders' funds and borrowings according to the risk characteristics of the assets. The Directors seek to minimise interest rate exposure by matching the type and maturity of the borrowings to those of the corresponding assets. Some derivative financial instruments are used to achieve this objective.

The interest rate profile of the financial assets and liabilities of the Group is shown in the table below by the earlier of the contractual repricing or maturity date.

	Within 1 year 2006 £m	1–2 years 2006 £m	2–3 years 2006 £m	3–4 years 2006 £m	4–5 years 2006 £m	Over 5 years 2006 £m	Total 2006 £m
<b>Fixed rate</b>							
Loans and receivables	28	41	63	42	121	889	1,184
Deposits	1,108						1,108
Cash and cash equivalents	847						847
Loans and borrowings	(230)	(200)				(600)	(1,030)
Convertible Bonds			(365)				(365)
Subordinated liabilities						(24)	(24)
Derivatives	188	(282)	(32)	(19)	(164)	(406)	(715)
	1,941	(441)	(334)	23	(43)	(141)	1,005
<b>Floating rate</b>							
Loans and receivables	182						182
Loans and borrowings	(444)						(444)
Derivatives	715						715
	453						453

**21 Financial risk management (continued)**

	Within 1 year 2005 (as restated)* £m	1–2 years 2005 (as restated)* £m	2–3 years 2005 (as restated)* £m	3–4 years 2005 (as restated)* £m	4–5 years 2005 (as restated)* £m	Over 5 years 2005 (as restated)* £m	Total 2005 (as restated)* £m
<b>Fixed rate</b>							
Loans and receivables	46	30	94	87	44	813	1,114
Deposits	885						885
Cash and cash equivalents	314						314
Loans and borrowings	(98)	(4)	(200)			(600)	(902)
Convertible Bonds				(352)			(352)
Subordinated liabilities						(50)	(50)
Derivatives	(45)	178	(275)	(32)	(21)	(292)	(487)
	1,102	204	(381)	(297)	23	(129)	522
<b>Floating rate</b>							
Loans and receivables	286						286
Loans and borrowings	(396)						(396)
Derivatives	487						487
	377						377

\*As restated for the adoption of IFRS.

The derivatives line shows the notional value of currency and interest rate swaps.

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

**Fair value interest rate risk** The fair value of 3i's derivative assets and liabilities is subject to interest rate risk. At 31 March 2006 the fair value of derivative financial instruments was £149 million (2005: £45 million).

**22 Derivative financial instruments**

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Current assets</b>				
Forward foreign exchange contracts	4	19	4	19
Currency swaps	–	1	–	1
Interest rate swaps	15	15	15	15
	19	35	19	35
<b>Current liabilities</b>				
Forward foreign exchange contracts	(12)	(3)	(12)	(3)
Currency swaps	(3)	(7)	(3)	(7)
Interest rate swaps	(57)	(50)	(49)	(36)
Derivative element of Convertible Bonds	(96)	(20)	(96)	(20)
	(168)	(80)	(160)	(66)

\*As restated for the adoption of IFRS.

**22 Derivative financial instruments (continued)**

**Forward foreign exchange contracts and currency swaps** The Group uses forward exchange contracts and currency swaps to minimise the effect of fluctuations in the value of the investment portfolio from movement in exchange rates. Foreign currency interest-bearing loans and borrowings are also used for this purpose.

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to profit or loss.

At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts is as follows:

	2006 £m	2005 (as restated)* £m
Forward foreign currency contracts	1,392	825
Currency swaps	35	68
	<b>1,427</b>	<b>893</b>

\*As restated for the adoption of IFRS.

**Interest rate swaps** The Group uses interest rate swaps to manage its exposure to interest rate movements on its interest-bearing loans and borrowings. The fair value of these contracts is recorded in the balance sheet and is determined by discounting future cash flows at the prevailing market rates at the balance sheet date. No contracts are designated as hedging instruments and consequently all changes in fair value are taken to profit or loss.

At the balance sheet date, the notional amount of outstanding interest rate swaps is as follows:

	2006 £m	2005 (as restated)* £m
Fixed rate to variable rate	340	430
Fixed rate to fixed rate	70	70
Variable rate to fixed rate	1,020	849
Variable rate to variable rate	170	170
	<b>1,600</b>	<b>1,519</b>

\*As restated for the adoption of IFRS.

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 derivatives are held at fair value which represents the replacement cost of the instruments at the balance sheet date. Movements in the fair value of derivatives are included in the income statement.

**23 Loans and borrowings**

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Loans and borrowings</b>	<b>1,474</b>	1,298	<b>1,198</b>	981
<b>Loans and borrowings are repayable as follows:</b>				
Within one year	231	102	230	102
In the second year	400	155	200	79
In the third year	94	400	94	200
In the fourth year	–	40	–	–
In the fifth year	149	–	74	–
After five years	600	601	600	600
	<b>1,474</b>	1,298	<b>1,198</b>	981

\*As restated for the adoption of IFRS.

**23 Loans and borrowings (continued)**

Principal borrowings include:

	Rate	Maturity	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
<b>Notes issued under the £2,000 million note issuance programme</b>						
<b>Fixed rate</b>						
£200 million notes (public issue)	6.875%	2007	200	200	200	200
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£400 million notes (public issue)	5.750%	2032	400	400	400	400
<b>Variable rate</b>						
£200 million notes (public issue)	LIBOR+0.100%	2007	200	200	–	–
Other			94	4	94	4
			<b>1,094</b>	1,004	<b>894</b>	804
<b>Committed multi-currency facilities</b>						
£486 million (negotiated September 2005)	LIBOR+0.210%	2010	–	–	–	–
£150 million (negotiated November 2005)	LIBOR+0.175%	2010	148	–	74	–
£360 million (facility expired)			–	151	–	76
£595 million (facility expired)			–	40	–	–
			<b>148</b>	191	<b>74</b>	76
<b>Other</b>						
Other bonds in issue		2010	1	1	–	–
Other borrowings			2	101	2	101
Euro commercial paper			228	–	228	–
Finance lease obligations			1	1	–	–
			<b>232</b>	103	<b>230</b>	101
<b>Total loans and borrowings</b>			<b>1,474</b>	1,298	<b>1,198</b>	981

\*As restated for the adoption of IFRS.

The drawings under the committed multi-currency facilities are repayable within one year but have been classified as repayable at the maturity date as immediate replacement funding is available until those maturity dates. The undrawn commitment fee on the £150 million committed multi-currency facility is 0.05%. The margin on this facility increases to 0.20% if the drawn amount is greater than 50% of the facility. The undrawn commitment fee on the £486 million committed multi-currency facility is 0.08%. The margin on this facility increases to 0.235% if the drawn amount is between 33% and 66% of the facility, and to 0.26% if the drawn amount is greater than 66% of the facility.

The other borrowings in 2005 principally relate to deposits taken when the Company was a licensed deposit taker. This activity has now ceased.

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loan and borrowings is £1,543 million (2005: £1,359 million).

## 24 Convertible Bonds

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Opening balance	352	334	352	334
Amortised during the year	8	8	8	8
Exchange movements	5	10	5	10
<b>Closing balance</b>	<b>365</b>	<b>352</b>	<b>365</b>	<b>352</b>

\*As restated for the adoption of IFRS.

On 1 August 2003, 3i Group plc issued €550 million 1.375% Convertible Bonds due 2008. The 3i share price on 1 August 2003 was 635p (31 March 2006: 941p). 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, which has subsequently been adjusted to £8.38 following the share consolidation and special dividend in July 2005. The issuer may make a payment in cash as an alternative to issuing shares upon either conversion or redemption. Unless previously realised and cancelled, redeemed or converted, these bonds will be redeemed on 1 August 2008. Interest is payable on the bonds in equal semi-annual instalments in arrears on 12 January and 12 July each year.

On issue, part of the proceeds of the Convertible Bonds was recognised as a derivative instrument. The remaining amount is recognised as a loan and is being held at amortised cost. The effective interest rate is 4.1%. The fair value of the loan element of the Convertible Bonds is £366 million (2005: £362 million).

## 25 Subordinated liabilities

	Group 2006 £m	Group 2005 (as restated)* £m
<b>Subordinated liabilities are repayable as follows:</b>		
After five years	24	50

\*As restated for the adoption of IFRS.

Subordinated liabilities comprise limited recourse funding from Kreditanstalt für Wiederaufbau ("KfW"), a German federal bank. Repayment of the funding, which individually finances investment assets, is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the German subsidiaries to which these funds have been advanced and in certain cases becomes non-repayable as assets fail.

## 26 Trade and other payables

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Other accruals	160	135	42	28
Amounts due to subsidiaries	–	–	229	226
	<b>160</b>	<b>135</b>	<b>271</b>	<b>254</b>

\*As restated for the adoption of IFRS.

The Directors consider that the fair value of other accruals approximates to the carrying value of other accruals.

**27 Provisions**

	2006 Property £m	2006 Redundancy £m	2006 Total £m
Opening balance	6	6	12
Charge for year	1	4	5
Utilised in year	(2)	(5)	(7)
Movement for the year	(1)	(1)	(2)
Closing balance	5	5	10

The provision for redundancy relates to staff reductions announced this financial year and the prior financial year. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease, and have been provided for to the extent they are not covered by income from sub-leases.

**28 Issued capital**

<b>Authorised</b>	2006 Number	2006 £m	2005 Number	2005 £m
Ordinary shares of 50p	–	–	820,000,000	410
Ordinary shares of 53½p	771,764,704	410	–	–
Unclassified shares of 10p	1,000,000	–	1,000,000	–

<b>Issued and fully paid</b>	2006 Number	2006 £m	2005 Number	2005 £m
<b>Ordinary shares of 50p</b>				
Opening balance	614,409,167	307	613,479,159	307
Issued on exercise of share options and under the 3i Group Share Incentive Plan	268,792	–	930,008	–
Share consolidation	(614,677,959)	(307)	–	–
Closing balance	–	–	614,409,167	307

During the period 1 April 2005 to 10 July 2005, the Company issued shares for cash on the exercise of share options at various prices from 361p to 664p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme, which were issued at 583p and 975p per share). The Company repurchased 400,452 ordinary shares of 50p each at 683p per share. These shares were cancelled after the Company consolidated its share capital on 11 July 2005.

On 11 July 2005, the Company consolidated its issued share capital on the basis of 16 ordinary shares of 53½p each for every 17 ordinary shares of 50p each held. This coincided with the payment of a special dividend of 40.7p per share.

<b>Ordinary shares of 53½p</b>	2006 Number	2006 £m	2005 Number	2005 £m
Opening balance	–	–	–	–
Share consolidation	578,520,432	307	–	–
Issued on exercise of share options and under the 3i Group Share Incentive Plan	2,222,966	1	–	–
Shares cancelled	(30,186,896)	(16)	–	–
Closing balance	550,556,502	292	–	–

Since 11 July 2005 up to 31 March 2006, the Company issued shares for cash on the exercise of share options at various prices from 467p to 805p per share (the market prices of shares on grant, apart from options under the 3i Group Sharesave Scheme, which were issued at 583p and 975p per share). The Company repurchased 29,810,000 ordinary shares of 53½p each at an average price of 734p per share. These shares, and those purchased before the share consolidation, amounting to a total of 30,186,896 ordinary shares of 53½p each, were cancelled and a transfer made to the capital redemption reserve equal to the nominal value of the shares repurchased.

## 29 Equity

	Group Share capital 2006 £m	Group Share premium 2006 £m	Group Capital redemption reserve 2006 £m	Group Share-based payment reserve 2006 £m	Group Translation reserve 2006 £m	Group Capital reserve 2006 £m	Group Revenue reserve 2006 £m	Group Own shares 2006 £m	Group Total equity 2006 £m
<b>Opening balance</b>	<b>307</b>	<b>364</b>	<b>1</b>	<b>9</b>	<b>5</b>	<b>2,613</b>	<b>477</b>	<b>(77)</b>	<b>3,699</b>
Total recognised income and expense					(5)	719	117		831
Share-based payments				8					8
Issues of shares	1	12							13
Dividends paid							(331)		(331)
Share buy-backs	(16)		16			(222)			(222)
Own shares								8	8
<b>Closing balance</b>	<b>292</b>	<b>376</b>	<b>17</b>	<b>17</b>	<b>-</b>	<b>3,110</b>	<b>263</b>	<b>(69)</b>	<b>4,006</b>

	Group Share capital 2005 (as restated)* £m	Group Share premium 2005 (as restated)* £m	Group Capital redemption reserve 2005 (as restated)* £m	Group Share-based payment reserve 2005 (as restated)* £m	Group Translation reserve 2005 (as restated)* £m	Group Capital reserve 2005 (as restated)* £m	Group Revenue reserve 2005 (as restated)* £m	Group Own shares 2005 (as restated)* £m	Group Total equity 2005 (as restated)* £m
Opening balance	307	359	1	3		2,246	433	(55)	3,294
Total recognised income and expense					5	367	129		501
Share-based payments				6					6
Dividends paid							(85)		(85)
Issues of shares		5							5
Own shares								(22)	(22)
Closing balance	307	364	1	9	5	2,613	477	(77)	3,699

\*As restated for the adoption of IFRS.

	Company Share capital 2006 £m	Company Share premium 2006 £m	Company Capital redemption reserve 2006 £m	Company Capital reserve 2006 £m	Company Revenue reserve 2006 £m	Company Total equity 2006 £m
<b>Opening balance</b>	<b>307</b>	<b>364</b>	<b>1</b>	<b>2,433</b>	<b>521</b>	<b>3,626</b>
Total recognised income and expense					556	643
Issues of shares	1	12				13
Dividends paid					(331)	(331)
Share buy-backs	(16)		16	(222)		(222)
<b>Closing balance</b>	<b>292</b>	<b>376</b>	<b>17</b>	<b>2,767</b>	<b>277</b>	<b>3,729</b>

	Company Share capital 2005 (as restated)* £m	Company Share premium 2005 (as restated)* £m	Company Capital redemption reserve 2005 (as restated)* £m	Company Capital reserve 2005 (as restated)* £m	Company Revenue reserve 2005 (as restated)* £m	Company Total equity 2005 (as restated)* £m
Opening balance	307	359	1	2,120	513	3,300
Total recognised income and expense					313	406
Dividends paid					(85)	(85)
Issues of shares		5				5
Closing balance	307	364	1	2,433	521	3,626

\*As restated for the adoption of IFRS.

**Capital redemption reserve** The Company is required to establish this reserve on the redemption or repurchase of its own shares.**Share-based payment reserve** The share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments.**Translation reserve** The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations.**Capital reserve** The capital reserve recognises all profits that are capital in nature or have been allocated to capital. These profits are not distributable by way of dividend.**Revenue reserve** The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue.



### 30 Own shares

	2006 £m	2005 £m
<b>Opening cost</b>	<b>77</b>	55
Additions	–	25
Disposals	(8)	(3)
<b>Closing cost</b>	<b>69</b>	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 2006 was £104 million (2005: £84 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.

### 31 Per share information

The earnings and net assets per share attributable to the equity shareholders of the Company are based on the following data:

	2006	2005 (as restated)*
<b>Earnings per share (pence)</b>		
Basic	<b>152.0</b>	82.6
Diluted	<b>147.3</b>	81.0
<b>Earnings (£m)</b>		
Profit for the year attributable to equity holders of the Company	<b>852</b>	498
Effect of dilutive potential ordinary shares	<b>14</b>	11
	<b>866</b>	509

\*As restated for the adoption of IFRS.

	2006 Number	2005 Number
<b>Number of shares</b>		
Weighted average number of shares in issue	<b>560,684,598</b>	603,240,340
Effect of dilutive potential ordinary shares		
Share options	<b>2,744,369</b>	119,980
Convertible Bonds	<b>24,750,000</b>	24,750,000
<b>Diluted shares</b>	<b>588,178,967</b>	628,110,320

	2006	2005 (as restated)*
<b>Net assets per share (pence)</b>		
Basic	<b>743</b>	615
Diluted	<b>739</b>	614
<b>Net assets (£m)</b>		
Net assets attributable to equity holders of the Company	<b>4,006</b>	3,699

\*As restated for the adoption of IFRS.

	2006 Number	2005 Number
<b>Number of shares in issue</b>	<b>539,475,744</b>	601,912,869
Effect of dilutive potential ordinary shares		
Share options	<b>2,916,552</b>	1,007,723
	<b>542,392,296</b>	602,920,592

\*As restated for the adoption of IFRS.

### 32 Dividends

	2006 pence per share	2006 £m	2005 (as restated)* pence per share	2005 (as restated)* £m
<b>Declared and paid during the period</b>				
Ordinary shares				
Final dividend	<b>9.3</b>	<b>56</b>	8.9	53
Special dividend	<b>40.7</b>	<b>245</b>	–	–
Interim dividend	<b>5.5</b>	<b>30</b>	5.3	32
	<b>55.5</b>	<b>331</b>	14.2	85
Proposed dividend	<b>9.7</b>	<b>52</b>	9.3	56

\*As restated for the adoption of IFRS.

### 33 Operating leases

**Leases as lessee** Future minimum payments due under non-cancellable operating lease rentals are as follows:

	2006 £m	2005 £m
Less than one year	<b>6</b>	6
Between one and five years	<b>32</b>	33
More than five years	<b>39</b>	45
	<b>77</b>	84

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2006, £6 million was recognised as an expense in the income statement in respect of operating leases (2005: £9 million). £2 million was recognised as income in the income statement in respect of subleases (2005: £2 million).

### 34 Commitments

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Share and loan investments	<b>470</b>	431	<b>250</b>	377

Most of the above commitments are expected to be settled in the following financial year.

### 35 Contingent liabilities

	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	<b>13</b>	21	<b>13</b>	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.

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the £150 million and the £486 million revolving credit facilities. At 31 March 2006, 3i Holdings plc had drawn down £74 million (2005: £nil) under the first facility.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of the liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan.

At 31 March 2006, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

### 36 Related parties

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investments and its key management personnel. In addition the Company has related parties in respect of its subsidiaries.

**Limited partnerships** The Group manages funds on behalf of third parties. These funds invest through a number of limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them.

The following amounts have been included in respect of these limited partnerships:

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Income statement</b>				
Carried interest receivable	79	2	79	2
Fund management fees	24	30	–	–

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Balance sheet</b>				
Carried interest receivable	77	9	77	9
Amount due from limited partnerships	3	4	–	–

\*As restated for the adoption of IFRS.

**Investments** The Group makes minority investments in the equity of unquoted companies. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Income statement</b>				
Realised profits over value on the disposal of investments	374	209	292	183
Unrealised profits on the revaluation of investments	78	115	57	88
Portfolio income	203	184	72	152

	Group 2006	Group 2005 (as restated)*	Company 2006	Company 2005 (as restated)*
	£m	£m	£m	£m
<b>Balance sheet</b>				
Quoted equity investments	66	75	46	60
Unquoted equity investments	1,721	1,823	974	1,400
Loan and receivables	1,317	1,297	694	911

\*As restated for the adoption of IFRS.

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. There have been no single transactions in the year with a material effect on the Group's financial statements and all such transactions are fully included in the above disclosure.

### 36 Related parties (continued)

**Key management personnel** The Group's key management personnel comprises the members of Management Committee and the Board's non-executive directors. The remuneration of key management personnel was:

	Group 2006	Group 2005 (as restated)*
	£m	£m
Salaries, fees, supplements and benefits in kind	5	4
Bonuses and deferred share bonuses	6	3
Increase in accrued pension	–	–
Carried interest payable within one year	4	2
Carried interest payable after one year	5	4
Share-based payments	1	1

\*As restated for the adoption of IFRS.

**Subsidiaries** Transactions between the Company and its subsidiaries, which are related parties of the Company are eliminated on consolidation. Details of related party transactions between the Company, and its subsidiaries are detailed below.

**Management, administrative and secretarial arrangements** The Company has appointed 3i Investments plc, a wholly owned subsidiary of the Company incorporated in England, as investment manager of the Group. 3i Investments plc received a fee of £26 million (2005: £26 million) for this service.

The Company has appointed 3i plc, a wholly owned subsidiary of the Company incorporated in England, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £126 million (2005: £102 million) for this service.

**Investment entities** The Company makes investments through a number of subsidiaries by providing funding in the form of capital contributions or loans depending on the legal form of the entity making the investment. The legal form of these subsidiaries may be limited partnerships or limited companies or equivalent depending on the jurisdiction of the investment. The Company receives interest on this funding and receives dividends and distributions from these entities.

	Company 2006	Company 2005 (as restated)*
	£m	£m
Realised profit/(loss) over fair value on the disposal of investments	54	(79)
Dividends	41	11
Interest	1	1

\*As restated for the adoption of IFRS.

**Other subsidiaries** The Company borrows funds from certain subsidiaries and pays interest on the outstanding balances. The amounts that are included in the Company's income statement are as follows:

	Company 2006	Company 2005 (as restated)*
	£m	£m
Interest	2	5

\*As restated for the adoption of IFRS.

### 37 Group entities

#### Significant subsidiaries

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	England and Wales	1,000,000 shares of £1	Holding company	16 Palace Street London SW1E 5JD
3i International Holdings	England and Wales	2,715,973 shares of £10	Holding company	
3i plc	England and Wales	110,000,000 shares of £1	Services	
3i Investments plc	England and Wales	10,000,000 ordinary shares of £1	Investment manager	
3i Europe plc	England and Wales	500,000 ordinary shares of £1	Investment advisory services	
3i Nordic plc	England and Wales	500,000 ordinary shares of £1	Investment advisory services	
3i Asia Pacific plc	England and Wales	140,000 ordinary shares of £1	Investment advisory services	
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee	
3i Corporation	US	15,000 shares of common stock (no par value)	Investment manager	880 Winter Street Suite 330 Waltham MA 02451, USA
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	Germany	€25,564,594	Investment manager	Bockenheimer Landstrasse 55 60325 Frankfurt am Main, Germany
3i Gestion SA	France	200,000 shares of €16	Investment manager	3 rue Paul Cézanne Paris, 75008 France

The list above comprises the principal subsidiary undertakings as at 31 March 2006 all of which were wholly owned. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

Each of the above subsidiary undertakings is included in the consolidated accounts of the Group.

As at 31 March 2006, the entire issued share capital of 3i Holdings plc was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings listed above was held by subsidiary undertakings of the Company, save that four shares in 3i Gestion SA were held by individuals associated with the Group.

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. Full information will be annexed to the Company's next annual return.

### 38 Reconciliations of UK GAAP to IFRS for comparative periods

Under IFRS, the "Total recognised income and expense" is the equivalent of "Total return", as reported previously. In order to comply with IFRS 1, we provide below a reconciliation of total return to the net profit per the income statement.

Note	Group 2005 £m	Company 2005 £m
<b>Total return under UK GAAP</b>	512	433
IAS 39 – Quoted investments	(a) (11)	(15)
IAS 39 – Fair value of derivatives	(b) 1	(8)
IAS 39 – Convertible Bonds	(c) 5	5
IFRS 2 – Share-based payments	(d) (6)	–
IAS 21 – Functional currencies and exchange rates	(e) (5)	(2)
IAS 16 – Own use property	(f) 1	1
IAS 19 – Retirement benefits	(g) 1	–
IAS 27 – Consolidation of limited partnerships	(i) –	(7)
<b>Profit under IFRS</b>	498	407

Note	Group 31 March 2005 £m	Group 1 April 2004 £m	Company 31 March 2005 £m	Company 1 April 2004 £m
<b>Total equity under UK GAAP</b>	3,637	3,230	3,488	3,160
IAS 39 – Quoted investments	(a) 25	36	18	33
IAS 39 – Fair valuation of derivatives	(b) (26)	(27)	(12)	(4)
IAS 39 – Convertible bonds	(c) 7	2	7	2
IAS 10 – Dividends payable	(h) 56	53	56	53
IAS 27 – Consolidation of limited partnerships and own shares	(i) –	–	69	56
<b>Total equity under IFRS</b>	3,699	3,294	3,626	3,300

Note	Group 2005 £m
<b>Change in cash under UK GAAP</b>	68
IAS 7 – Short-term deposits	(j) 40
<b>Change in cash and cash equivalents under IFRS</b>	108

#### Notes

- (a) Under IFRS, quoted investment assets are valued at bid price. Under UK GAAP, these had been valued at mid-market price with discounts applied for illiquidity.
- (b) 3i uses derivatives in the form of swap and forward exchange contracts to manage exposures to interest rates and currency. Under IFRS, these are held at fair value whereas they were held at cost under UK GAAP.
- (c) Under UK GAAP, the Convertible Bonds which were issued on 1 August 2003 were held at the face value of the bonds (£550 million). Under IFRS, the derivative element of the bonds is held at fair value. The liability is held at amortised cost.
- (d) Under UK GAAP, the approach in respect of share-based payments was to record a charge in profit or loss based on the intrinsic value of awarded shares at the grant date, with the charge being spread over the performance period. IFRS 2 requires the fair value of the equity instruments issued to be recognised in profit and loss over the vesting period of the instrument. The cost is calculated using option pricing methods and applies to all options granted after 7 November 2002 and not vested by 1 January 2005.
- (e) Under IFRS, revenue items will be held at the rates in force at the time of the transaction. Exchange differences on the retranslation on consolidation of the opening net investment in foreign entities and the retranslation of profit or loss items to closing rate are recorded as movements on reserves.

### 38 Reconciliations of UK GAAP to IFRS for comparative periods (continued)

- (f) Under IFRS, unrealised profits or losses on the revaluation of properties in use by the Group are taken directly to equity and do not appear in the income statement.
- (g) Under IFRS, the actuarial gain or loss on retirement benefit obligations is taken directly to equity and does not appear in the income statement.
- (h) Under IFRS, dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.
- (i) Under UK GAAP, investment in limited partnerships were treated as an intrinsic part of the Parent Company. Under IFRS it is more appropriate to show these investments as subsidiaries. The 3i Group Employee Trust is now treated as a separate entity rather than an intrinsic part of the Company. The limited partnerships and the Trust form part of the Group consolidation.
- (j) Under IFRS, short-term deposits are classified as cash equivalents whereas they were included in liquid resources under UK GAAP. The move from UK GAAP does not significantly change any of the cash flows of the Group.

### 39 Directors' share interests

The interests of the Directors (all of which are beneficial) in the ordinary shares of the Company as stated in the register of directors' interests are shown below. Share interests stated before the Company's share consolidation on 11 July 2005 relate to ordinary shares of 50p each while those stated after that date relate to ordinary shares of 53½p each.

	31 March 2006 (or date of cessation if earlier)	31 March 2005	31 March 2006 (or date of cessation if earlier) conditional*	31 March 2005 conditional*
Baroness Hogg	18,686	17,355	–	–
P Mihatsch	–	–	–	–
C J M Morin-Postel	1,872	2,000	–	–
F D Rosenkranz	28,238	30,000	–	–
R H Smith	3,952	4,200	–	–
F G Steingraber	–	–	–	–
O H J Stocken	20,026	12,825	–	–
P E Yea	379,460	281,611	–	–
S P Ball	30,422	–	–	–
R W Perry (until 6 July 2005)	92,366	87,488	9,419	16,206
M J Queen	327,697	319,191	–	8,144

\*Represents conditional rights to acquire shares arising from deferred share bonus awards granted under the Management Equity Investment Plan, described on page 58.

The share interests shown above for each of Mr S P Ball, 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 56.

In addition to the interests shown above, the executive Directors also have beneficial interests in the conditional rights to acquire shares arising from performance linked awards granted under the Management Equity Investment Plan, which are detailed in the table on page 58. 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 12,496,297 shares as at 1 April 2005, 12,252,014 shares as at 6 July 2005 and 11,311,280 shares as at 31 March 2006. 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 Directors' remuneration report on page 55.

In the period from 1 April 2006 to 3 May 2006 the undermentioned Directors became beneficially interested in the following number of additional shares: Mr P E Yea (42 shares), Mr S P Ball (39 shares) and Mr M J Queen (42 shares). In addition, as at that date, the number of shares held by the 3i Group Employee Trust was 11,311,280.