Significant accounting policies

3i Group plc (the "Company") is a company incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of the Company for the year to 31 March 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities. Separate financial statements of the Company are also presented. The accounting policies of the Company are the same as the Group except where separately disclosed.

The financial statements were authorised for issue by the Directors on 10 May 2006.

A Statement of compliance These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union ("IFRS"). These are the Group's first consolidated and separate financial statements prepared under IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied.

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 1985 and the Listing Rules of the Financial Services Authority.

IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. 3i has taken the following key decisions:

– The effect of changes in foreign exchange rates: Under IFRS 1, cumulative translation differences on the consolidation of subsidiaries are being accumulated from the date of transition to IFRS and not from the original acquisition date.

– Share-based payment: IFRS 2 Share-based Payment ("IFRS 2") has been adopted from the transition date and is only being applied to relevant equity instruments granted after 7 November 2002 and not vested as at 1 January 2005. 3i has elected not to take up the option of full retrospective application of the standard.

– Financial Instruments: Under IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"), all equity investments have been designated at the date of transition to be assets at fair value through profit or loss except for subsidiaries held by the Company.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group is provided in note 38.

New standards and interpretations not applied During the year, the IASB and IFRIC have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006
IAS 21	Amendments to IAS 21 – The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyper Inflationary Economies	1 March 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application. Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. There will be no effect on reported income or net assets.

B Basis of preparation The financial statements are presented in sterling, the functional currency of the Company, rounded to the nearest million pounds.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The most significant techniques for estimation are described in the accounting policies below and in our "valuation methodology" for investments.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet as at 1 April 2004 for the purpose of the transition to IFRS. The income statement of the Company has been omitted from these financial statements in accordance with Section 230 of the Companies Act 1985.

The accounting policies have been consistently applied across all Group entities for the purpose of producing these consolidated financial statements.

C Basis of consolidation

(i) Subsidiaries Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 Investment in Associates ("IAS 28"), which requires investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. The Group has no interests in associates through which it carries on its business.

(iii) Joint ventures Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures through which the Group carries on its business are classified as jointly controlled entities and accounted for using the equity method.

Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value. This treatment is permitted by IAS 31 Interests in Joint Ventures ("IAS 31"), which requires venturer's interests held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. The Group has no interests in joint ventures through which it carries on its business.

(iv) Transactions eliminated on consolidation Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

D Exchange differences

(i) Foreign currency transactions Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of non-sterling operations The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised directly in a separate component of equity, the translation reserve, and are released upon disposal of the non-sterling operation.

In respect of non-sterling operations, cumulative translation differences on the consolidation of non-sterling operations are being accumulated from the date of transition to IFRS, 1 April 2004, and not from the original acquisition date.

E Investment portfolio The Group's return is generated primarily from its investment portfolio, which forms the main element of its total assets.

(i) Recognition and measurement Investments are recognised and derecognised on a date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investments. The Group manages its investments with a view to profiting from the receipt of interest and dividends and changes in fair value of equity investments. Therefore, all quoted investments and unquoted equity investments are designated as at fair value through profit or loss and subsequently carried in the balance sheet at fair value. Other investments including loan investments and fixed income shares are classified as loans and receivables and subsequently carried in the balance sheet at amortised cost less impairment. All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying 3i's valuation policies. Acquisition costs are attributed to equity investments and recognised immediately in profit or loss. Subsidiaries in the separate financial statements of the Company are accounted for at cost less provision for impairment.

(ii) Income Gross portfolio return is a key performance indicator and is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs but excluding exchange movements. Investment income is analysed into the following components:

a Realised profits over value on the disposal of investments is the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

b Unrealised profits on the revaluation of investments is the movement in carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.

c Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:

– Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to that asset's carrying value.

– Dividends from equity investments are recognised in profit or loss when the shareholders' rights to receive payment have been established except to the extent that dividends, paid out of pre-acquisition reserves, adjust the fair value of the equity investment.

– Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

F Fund management The Group manages private equity funds, which primarily co-invest alongside the Group.

(i) Fund management fees Fees earned from the ongoing management of funds is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured.

(ii) Carried interest receivable The Group earns a share of profits ("carried interest receivable") from funds which it manages on behalf of third parties. These profits are earned once the funds meet certain performance conditions.

Carried interest receivable is only accrued on those managed funds in which the fund's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

G Carried interest payable The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest payable" is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest scheme. Carried interest payable is only accrued on those schemes in which the scheme's performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in the scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme.

H Property, plant and equipment

(i) Land and buildings Land and buildings are carried in the balance sheet at fair value less depreciation and impairment. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Any revaluation surplus is credited directly to the Capital reserve in equity except to the extent that it reverses a previous valuation deficit on the same asset charged in the income statement in which case the surplus is recognised in the income statement to the extent of the previous deficit. Any revaluation deficit that offsets a previously recognised surplus in the same asset is directly offset against the surplus in the Capital reserve. Any excess valuation deficit over and above the previously recognised surplus is charged in profit or loss.

Depreciation on revalued buildings is charged in the income statement over its estimated useful life, generally over 50 years. On subsequent sale or retirement of a revalued property, the attributable surplus in the Capital reserve is transferred directly to accumulated profits.

(ii) Vehicles and office equipment Fixed assets are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years; computer equipment three years; computer software three years; motor vehicles four years.

(iii) Assets held under finance leases Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term. Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The interest element of the rental obligations is charged in the income statement over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

I Investment property Investment properties are properties that are held either to earn rental income or for capital appreciation or for both.

(i) Recognition and measurement Investment properties are recorded at their fair value at the date of acquisition or upon classification as an Investment Property following a change of use. They are subsequently held in the balance sheet at fair value. Fair value is determined at each balance sheet date from valuations undertaken by professional valuers using market-based evidence. Gains or losses arising from the changes in fair value are recognised in profit or loss for the period in which they arise.

(ii) Income and expenditure Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised immediately in the income statement. Expenditure on investment properties is expensed as it accrues.

J Treasury assets and liabilities Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument.

(i) Cash and cash equivalents Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to an insignificant risk of changes in value, net of bank overdrafts.

(ii) Deposits Deposits in the balance sheet comprise longer term deposits with an original maturity of greater than three months.

(iii) Bank loans, loan notes and borrowings All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowings. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

(iv) Convertible bonds Where a convertible bond has an issuer cash settlement option, the convertible bonds are regarded as compound instruments consisting of a liability and a derivative instrument (see policy below for derivatives). On issue of the convertible bonds, the fair value of the derivative component is determined using a market rate for an equivalent derivative. Subsequent to initial recognition the conversion option is measured as a derivative financial instrument. The remainder of the proceeds is allocated to the liability component and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption.

Issue costs are apportioned between the liability and derivative component of the convertible bonds based on their relative carrying amounts at the date of issue. The portion relating to the derivative instrument is recognised initially as part of the financial derivative instrument.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible bonds.

(v) Derivative financial instruments Derivative financial instruments are used to manage the risks associated with foreign currency fluctuations of the investment portfolio and changes in interest rates on its borrowings. This is achieved by the use of foreign currency contracts, currency swaps and interest rate swaps. All derivative financial instruments are held at fair value.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently remeasured to fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The fair value of currency swaps and interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. All changes in the fair value of derivative financial instruments are taken through profit or loss.

(vi) Subordinated liabilities The Group has some limited recourse funding, which individually finances investment assets, at various fixed rates of interest and whose maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual Group entity to which the funds have been advanced and becomes non-repayable as the assets fail. These liabilities are held in the balance sheet at the amount expected to be repayable based on the underlying assets. Changes in the amounts repayable as a result of changes in the underlying assets are treated as other income in the income statement. Interest payable on subordinated liabilities is charged as it accrues by reference to the principal outstanding and the effective interest rate applicable.

K Employee benefits

(i) Retirement benefit costs Payments to defined contribution retirement benefit plans are charged as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at each balance sheet date. Current service costs are recognised in profit or loss. Past service costs are recognised to the extent that they are vested immediately in profit or loss. Actuarial gains or losses are recognised in full as they arise as part of the statement of recognised income and expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligations as reduced by the fair value of plan assets.

(ii) Share-based payments In accordance with the transitional provisions of IFRS 1, the requirements of IFRS 2 have been applied to all grants of equity instruments after 7 November 2002, that were unvested at 1 January 2005.

The Group enters into arrangements that are equity-settled share-based payments with certain employees (including Directors). These are measured at fair value at the date of grant, which is then recognised in profit or loss on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of the Company. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative change since the previous balance sheet is recognised in the income statement, with a corresponding entry in equity.

L Other assets Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in profit or loss. An impairment loss is reversed at subsequent balance sheet dates to the extent that the asset's carrying amount does not exceed its carrying value had no impairment loss been recognised.

M Other liabilities Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

N Equity instruments Equity instruments issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity. When share capital is repurchased, the amount of consideration paid, including directly attributable costs, is recognised as a change in equity. The nominal value of shares repurchased is transferred to the Capital redemption reserve in equity.

O Provisions Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the profit or loss for the period.

P Income taxes Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit ("temporary differences"), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised, and that the temporary differences will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.