



3i Group plc Interim report 2004



3i is a world leader in private equity and venture capital. We focus on Buyouts, Growth Capital and Venture Capital and invest across Europe, in the United States and in Asia Pacific.

Our competitive advantage comes from our international network and the strength and breadth of our relationships in business. These underpin the value that we deliver to our portfolio and to our shareholders.

Financial highlights

Total return

£231m

Realised profits

£95m

Return on opening shareholders' funds

7.2%

Dividend per share

5.3p

Revenue profit before tax

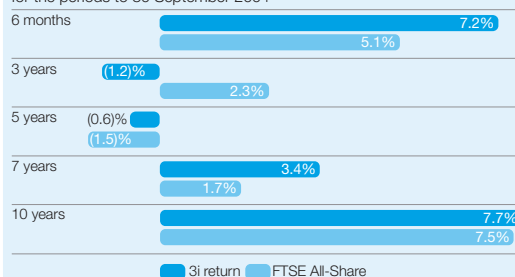
£84m

	6 months to 30 September 2004	6 months to 30 September 2003 (as restated)*
Total return	£231m	£367m
Return on opening shareholders' funds	7.2%	13.2%
Revenue profit before tax	£84m	£71m
Realisation proceeds	£603m	£503m
Realised profits on disposal of investments	£95m	£134m
Unrealised profits on revaluation of investments	£118m	£222m
Investment (including co-investment funds)	£521m	£273m
Dividend per share	5.3p	5.1p

Diluted net asset value per share at 30 September 2004 568p (31 March 2004: 535p as restated)

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts.

Comparison of 3i's 6 month and compound annual return with the FTSE All-Share total return index for the periods to 30 September 2004



Chairman's statement

“strong performance and good momentum”

A strong performance and good momentum in both investments and realisations confirm that the changes made to the business over the last few years are bearing fruit. The total return of £231 million for the six months to 30 September 2004 represents a 7.2% return on opening shareholders' funds. This compares with 5.1% for the FTSE All-Share, and 6.0% for the FTSE 100 total return index, in the same period. The Directors have announced an interim dividend of 5.3p, representing an increase of 3.9%.

Our teams around the world have been taking advantage of the market access our network brings to make investments totalling £521 million in the first half of the financial year. And profits of £95 million on realisation proceeds of £603 million demonstrate the quality of our portfolio – particularly since these profits come on top of significant increases in the value of investments recorded at the end of March. A fall in the level of provisions is a further indicator of the improvement in the health of the portfolio.

The appointment of Philip Yea as our new Chief Executive has been widely welcomed. Since joining 3i on 7 July, he has reviewed the Group's strategy and vision. On page 3, he outlines the organisational changes he has made to position the business for growth, enhance the linkage between our geographic markets and the business lines, and ensure that 3i continues to attract and retain the best talent.

Two new non-executive Directors have joined the Board since the Annual General Meeting: Sir Robert Smith and Dr Peter Mihatsch. Sir Robert is a highly experienced public company director who also has substantial experience in private equity. Peter has great experience of growing successful European businesses and particular knowledge of German industry. His appointment means that half of our non-executive Directors are now based outside the UK, reflecting the increasing international breadth of 3i.

On the executive side of the Board, the major change is that Michael Queen, our Finance Director, is taking on responsibility for our important Growth Capital business. To succeed Michael, we have recruited Simon Ball, who will make an excellent addition to the Board. Meanwhile, Martin Gagen, who has been responsible for 3i in the US since 1999, stepped down from the Board in August. I would like to thank Martin for all he has done in developing this business.

Looking forward, our European Enterprise Barometer suggests that the outlook continues to be positive, but with greater uncertainty than six months ago. We will remain active investors while continuing to maintain a rigorous approach to quality and pricing.



Sarah Hogg

Baroness Hogg

Chairman

3 November 2004

Our business focus

Buyouts

3i's Buyout business is focused on the mid and smaller Buyout markets in Europe and Asia Pacific.

Portfolio value

£2,291m

52%



Financial highlights (£m) for 6 months to 30 September 2004

Total return	113	31
Investment*	291	14
Realisation proceeds	219	169
Realised profits	24	21
Unrealised value movement	4	86

*Including funds

Mid-market Buyouts Smaller Buyouts

Growth Capital

Our Growth Capital business is focused on high growth companies, expanding organically or through acquisition.

Portfolio value

£1,493m

34%



Financial highlights (£m) for 6 months to 30 September 2004

Total return	79
Investment*	142
Realisation proceeds	133
Realised profits	39
Unrealised value movement	21

*Including funds

Venture Capital

3i's Venture Capital business is focused on the healthcare, software, communications and electronics, semiconductors and advanced technologies sectors.

Portfolio value

£594m

14%



Financial highlights (£m) for 6 months to 30 September 2004

Total return	8
Investment*	74
Realisation proceeds	82
Realised profits	11
Unrealised value movement	15

*Including funds

Group financial highlights (£m) 6 months to 30 September 2004

Total return	144	79	8
Investment*	305	142	74
Realisation proceeds	388	133	82
Realised profits	45	39	11
Unrealised value movement	82	21	15

*Including funds

Buyouts Growth Capital Venture Capital

Chief Executive's statement

“our strategy plays to our competitive strengths”

My priority since joining in July has been to meet with as many colleagues as possible in 3i's principal markets. I have found the business in good shape. Furthermore, I am encouraged by the opportunities for growth in the markets in which we operate and the potential to exploit the considerable advantages that the Group enjoys.

Our strategy plays to our competitive strengths. My objective will be to build on the significant changes that each business line has implemented over the past few years. However, it is just as important to lay the foundations for future growth, by developing further the capabilities that will allow us to invest successfully and thus achieve appropriate returns for our shareholders.

In our Buyout business, the strength of our network and our sector knowledge are critical both to the buying decision and creating value post investment. In an increasingly competitive market, these advantages enable us to secure the most attractive investments whilst achieving highly profitable realisations. We are well placed to win deals and drive further value from our investments.

3i's Growth Capital business enjoys the same advantages in a less competitive sector and is rightly concentrating on further improving its origination and execution skills. There is significant opportunity to grow the amount of investment by this business line.

Our Venture Capital business is one of a handful of such businesses which can operate on a truly international basis. Bringing our resources to serve the requirements of individual sectors requires new ways of working that our venture teams are making their priority.

As an investment trust, we report our returns in terms of net asset value. However, our objective for our business lines is to deliver gross vintage returns that compare with the best in our industry. Looking forward, these are likely to be of the order of 20% for Buyouts and Growth Capital and 35% for Venture. We intend to show increasing evidence of our progress towards these returns over the next few years, although the investment cycle in our Venture business requires more time to demonstrate this.

At a time when our end markets are internationalising and a number of our competitors are addressing succession issues by trying to become more institutional, 3i is well placed through the scale of our international resources and connections to remain a leader in our industry. However, it is critical that we leverage our

scale and show greater agility in bringing these resources to bear in our markets.

For this reason I have appointed Chris Rowlands, formerly Head of Growth Capital, to the newly created position of Head of Group Markets. In this position, he will be responsible for managing both our geographical markets and our other Group resources to ensure that we serve our three business lines in the most effective manner. Michael Queen, who has extensive experience in growth capital investing, will succeed Chris as Head of Growth Capital.

Simon Ball will succeed Michael as Finance Director and will join 3i on 7 February 2005. Simon brings wide experience in financial services and change management through his time at Robert Fleming and Kleinwort Benson.

Our people, both investors and support staff, are critical to our future success. As one of the few truly international players in an attractive industry, we can recruit and retain the right talent provided we pay at market rates and give opportunities for people to grow. Compensation schemes were revised last year and these give a basis through which investment executives will share in the success of the investments in which they are most directly involved. Developing the appropriate resources and capabilities requires a shift in the focus of how we manage our human resources and so our new Group Human Resources Director, Denise Collis, will become a member of our Executive Committee when she joins on 8 November.

We intend to build on the achievements of the past few years and deliver growth in value for our shareholders.



A handwritten signature in blue ink, appearing to read 'Philip Yea', written on a white background.

Philip Yea
Chief Executive
3 November 2004

Interim review

Table 1: Total return

	6 months to 30 September 2004 £m	6 months to 30 September 2003 (as restated) £m
Total operating income before interest payable	161	130
Interest payable	(42)	(50)
Management expenses	(81)	(70)
Realised profits on disposal of investments	95	134
Unrealised profits on revaluation of investments	118	222
Carried interest and investment performance plans	(25)	(12)
Other	5	13
– Revenue return	71	74
– Capital return	160	293
Total return	231	367

Table 2: Summary of changes to investment portfolio

	6 months to 30 September 2004 £m	6 months to 30 September 2003 £m
Opening portfolio	4,326	3,939
Investment	422	211
Realisation proceeds	(603)	(503)
Realised profits on disposal of investments	95	134
Unrealised profits on revaluation of investments	118	222
Other	20	3
Closing portfolio	4,378	4,006

Macroeconomic and market conditions Overall, the macroeconomic environment for 3i's portfolio companies remained relatively benign over the six-month period, though conditions within the different geographies and sectors in which our portfolio companies operate were variable. Both business sentiment and consumer confidence remained broadly positive. In currency terms, the euro was relatively unchanged against the US dollar, while sterling weakened significantly against both the euro and the US dollar.

Stock markets across Europe lacked direction over the period and the volume of mergers and acquisitions ("M&A"), a key driver of activity for our Buyout business, remained relatively subdued, both in Europe and globally.

The private equity and venture capital markets are experiencing increased levels of activity when compared with those in 2003, although the 2003 levels were adversely affected by the economic and business uncertainties prevailing during the first half of the year. Market statistics for the first six months of 2004 show aggregate European investment 12.5% up on the equivalent period in 2003, with buyouts up 7.5%, growth capital more than doubling (from a particularly low 2003 figure) and early-stage investment up 14.9%.

Market statistics for the venture capital market in the US, a key driver of venture capital activity worldwide, show that investment in the first six months of 2004 was up 23.2% on the equivalent period last year; and statistics for the same period for Asia Pacific show overall private equity investment up 39.6% on 2003.

There has been some improvement in the environment for realisations, although trade sales and IPO's of private equity-backed businesses remain at relatively low levels by historical standards. The level of secondary buyouts has remained high and conditions remain supportive for refinancing businesses.

Total return 3i achieved a total return of £231 million for the period, which equates to 7.2% on restated opening shareholders' funds. This compares with returns on the FTSE All-Share, FTSE 100 and FTSE SmallCap (ex investment companies) total return indices of 5.1%, 6.0% and minus 2.8% respectively.

The components of the total return are shown in table 1. The main drivers of the total return were a good level of profitable realisations, strong levels of income and steady growth in the value of the portfolio.

Each of our three business lines has performed satisfactorily. The Buyout return of 8.8% was underpinned by good valuation uplifts on a number of strongly-performing assets, including Westminster Healthcare, which was sold in October. The Growth Capital business line achieved an 8.3% return, mainly as a result of strong realisation profits and good levels of income from the portfolio, including a high level of special dividend receipts

Table 3: First and subsequent investment

	6 months to 30 September 2004 £m	6 months to 30 September 2003 £m
New first investments	255	111
Further funding or drawdown on existing arrangements	167	100
Total	422	211

Table 4: Investment by business line and geography (£m)
6 months to 30 September

	UK		Continental Europe		US		Asia Pacific		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Buyouts	88	13	125	77	-	-	-	-	213	90
Growth Capital	43	27	80	31	1	2	12	5	136	65
Venture Capital	21	13	17	26	34	16	1	1	73	56
Total	152	53	222	134	35	18	13	6	422	211

Table 5: Realisation proceeds by business line and geography (£m)
6 months to 30 September

	UK		Continental Europe		US		Asia Pacific		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Buyouts	282	93	104	81	2	-	-	55	388	229
Growth Capital	112	179	19	17	1	-	1	1	133	197
Venture Capital	51	45	25	21	6	11	-	-	82	77
Total	445	317	148	119	9	11	1	56	603	503

arising on the sale of investments. The Venture Capital business line made a positive total return of 1.4%, reflecting a good level of realised profits, a number of valuation increases arising as a result of portfolio companies raising funds from new investors at increased values, reduced levels of provisions and a foreign currency translation gain.

Investment 3i invested a total of £422 million (£521 million including investment on behalf of co-investment funds), which is a substantial increase over the low level of investment in the equivalent period last year.

An analysis of the amount invested, by business line and geography, is given in table 4. Buyouts represented 51% of total investment, Growth Capital 32% and Venture Capital 17%. Of the amount invested in Venture Capital, 68% was further investment into existing portfolio companies.

The geographic analysis in table 4 illustrates the increasing level of investment undertaken overseas, with continental Europe representing 53%, the US 8% and Asia Pacific 3% of the total invested. The share of investment represented by continental Europe reflects our focus on the relatively less mature private equity and venture capital markets there (compared with those in the UK), and also 3i's ability to access and execute deals across Europe through our regional presence and ability to resource transactions on a pan-European basis.

Realisations 3i generated realisation proceeds of £603 million (2003: £503 million) during the period, reflecting a profit over 31 March values of £95 million (19%), compared with £134 million (36%) in the equivalent period last year. The uplift over 31 March values on realisations of equity investments was 28% (2003: 61%). The reduced uplift figures relative to last year are largely due to the high level of realisations achieved in the earlier months of this period compared with last year. These assets were realised for amounts similar to their carrying value at 31 March 2004 as they were then valued on an imminent sale basis. Realised profits are stated net of write-offs, which amounted to £13 million (2003: £25 million). Overall, 12% of the opening portfolio was realised during the period (2003: 10%).

Although most of our realisation proceeds continue to come from sales of portfolio businesses to trade and financial purchasers, six portfolio companies achieved IPO's during the period (two on the Official List of the London Stock Exchange, two on AIM and one each in Frankfurt and Hong Kong). The IPO's of Pinewood Shepperton, the film and TV studios business, and E2V Holdings, a supplier of switching, sensing and imaging components, were notable in providing 3i with a 100% cash realisation on IPO.

Table 6: Unrealised profits on revaluation of investments

	6 months to 30 September 2004 £m	6 months to 30 September 2003 £m
Earnings multiples	18	235
Earnings	22	8
First-time valuation uplift from cost	32	59
Provisions	(44)	(65)
Net up/(down) rounds and restructuring	21	(68)
Other movements on unquoted investments	70	9
Quoted portfolio	(1)	44
Total	118	222

Unrealised value movement The unrealised profit on the revaluation of investments was £118 million (2003: £222 million). An analysis of the main components is given in table 6.

The weighted average earnings multiple applied to investments valued on an earnings basis was 12.0 at both 30 September and 31 March. However, for those investments valued on an earnings basis at both dates, there was a small increase in earnings multiples, giving rise to a value increase of £18 million.

The aggregate attributable earnings of investments valued on an earnings basis at both the start and the end of the period increased by approximately 2%, giving rise to a £22 million value increase. A number of strongly-performing Mid-market Buyouts and Growth Capital assets contributed significantly to this increase.

The net valuation impact arising on investments being valued on a basis other than cost for the first time ("first-time uplifts") was £32 million. The relatively low figure reflects the reduced level of investment made in late 2002 and the first half of 2003.

Provisions against investments in businesses which may fail totalled £44 million in the period, representing 1% of the opening portfolio value and a significant improvement over levels in recent periods.

There was a net £21 million valuation increase as a result of investee companies raising funds from new investors at increased values (£25 million), valuation reductions relating to the application of 3i's downround methodology (£4 million) and restructuring provisions (£nil).

Other movements on unquoted investments include valuation increases totalling £85 million on investments being revalued on an imminent sale basis, a foreign currency translation gain of £27 million and a valuation reduction of £38 million applied to the carrying value of loan investments and fixed income shares.

The quoted investments held at 30 September decreased in aggregate by £1 million (2003: £44 million increase), broadly reflecting the flat smaller quoted equities market over the period.

Carried interest and investment performance plans

The charge in the period of £25 million (2003: £12 million) reflects both profitable realisations and strong value growth on a number of recent investments.

Income and costs The main elements of income and costs are shown in table 1 on page 4.

Total operating income before interest payable was £161 million (2003: £130 million). The increase over the same period last year is due mainly to the receipt of several large special dividends arising on the sale of investments and a rise in deal-related fees resulting from the increased level of investment.

Net interest payable decreased relative to last year, reflecting both the reduced level of net borrowings and the lower average rate of interest following the €550 million convertible bond issue in August 2003.

Management expenses of £81 million are higher than in the equivalent period last year (but in line with the run-rate for the whole of the last financial year) mainly as a result of staff bonus costs being accrued at a higher level than in the first half of last year. Staff headcount during the period fell slightly, from 750 at 31 March to 740 at 30 September.

Chart A: **Portfolio value by geography** (£m)
as at 30 September 2004

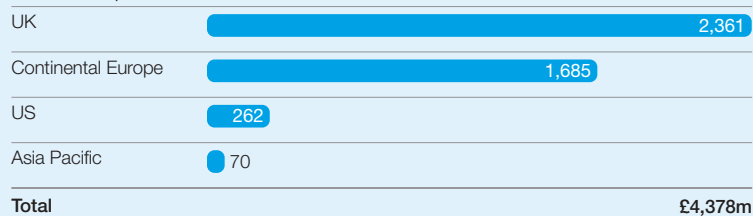


Chart B: **Portfolio value by FTSE classification** (£m)
as at 30 September 2004

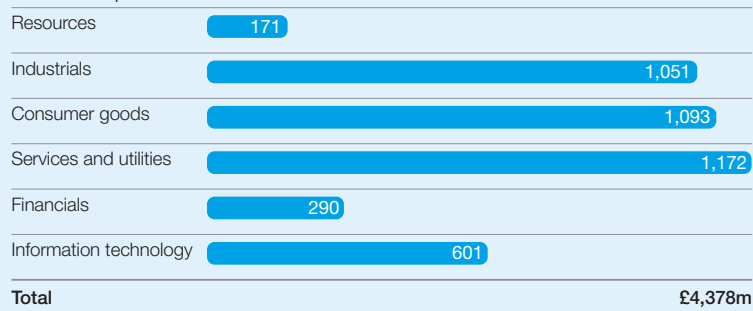
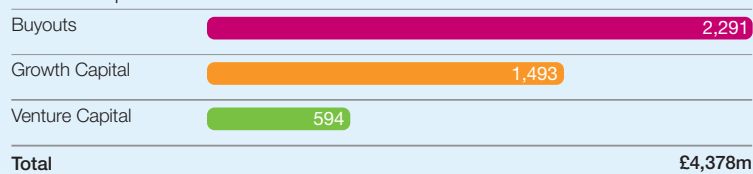


Chart C: **Portfolio value by business line** (£m)
as at 30 September 2004



The portfolio Charts A, B and C show the portfolio analysed by geography, sector and business line respectively.

The number of investments in the portfolio fell from 1,878 at 31 March to 1,738 at 30 September, reflecting the high level of realisations.

As at 30 September, the top 10 investments represented 15% of the total portfolio by value, and the top 50 represented 38%, highlighting the relatively low exposure 3i has to individual company risk.

Accounting policies and valuation As set out on page 13, Financial Reporting Standard 17 “Retirement Benefits” has been implemented in full for the first time during the period. Additionally, the recommendations of Urgent Issues Task Force Abstract 38 “Accounting for ESOP Trusts” have been implemented and the presentation of comparatives changed accordingly.

Work to comply with the requirements of International Financial Reporting Standards (“IFRS”) in the year to 31 March 2006 is advancing to plan. Differences have been identified, revised accounting policies are being finalised and systems changes are in progress. Subject to the endorsement by the EU of certain specific standards, notably IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”, 3i is confident that it will be able to meet requirements for financial reporting during the year to 31 March 2006. The first financial statements prepared on an IFRS basis will be those for the six months to 30 September 2005.

There have been no changes in valuation methodology during the period.

Cash flows and capital structure Net cash inflow for the period was £64 million. Net borrowings at 30 September were £901 million, down from £936 million at 31 March. Gearing at 30 September was 26%, compared with 29% at 31 March.

There were no significant changes in 3i’s capital structure during the period.

Since 30 September, 3i has adopted a new hedging policy, which will be implemented over the next 12 months. The policy is designed to eliminate, as far as possible, the exposure of assets denominated in foreign currencies to movements in the exchange rates between sterling and the respective currencies. Foreign currency borrowings and swaps will be used to effect the hedges.

Outlook Since the start of October, the pipelines for new investments and exits have been at reasonably good levels. Economic conditions remain broadly supportive, despite some uncertainty surrounding the outlook for the global economy, both the listed equity and M&A markets are showing signs of activity.

We remain positive about the prospects for the second half of the year.

Consolidated statement of total return

for the six months to 30 September 2004

	6 months to 30 September 2004 (unaudited)			6 months to 30 September 2003 (as restated)* (unaudited)			12 months to 31 March 2004 (as restated)* (audited)		
	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m
Capital profits									
Realised profits on disposal of investments		95	95		134	134		228	228
Unrealised profits on revaluation of investments		118	118		222	222		336	336
		213	213		356	356		564	564
Carried interest and investment performance plans		(25)	(25)		(12)	(12)		(40)	(40)
		188	188		344	344		524	524
Total operating income before interest payable	146	15	161	130	–	130	262	5	267
Interest payable	(27)	(15)	(42)	(27)	(23)	(50)	(51)	(42)	(93)
	119	188	307	103	321	424	211	487	698
Administrative expenses	(36)	(45)	(81)	(30)	(40)	(70)	(72)	(91)	(163)
Other finance income/(costs) on pension plan	1		1	(2)		(2)	(3)		(3)
Actuarial gains/(losses) on pension plan		3	3		10	10		(4)	(4)
Return before tax and currency translation adjustment	84	146	230	71	291	362	136	392	528
Tax	(14)	12	(2)	(9)	8	(1)	(29)	25	(4)
Return for the period before currency translation adjustment	70	158	228	62	299	361	107	417	524
Currency translation adjustment	1	2	3	12	(6)	6	24	(24)	–
Total return	71	160	231	74	293	367	131	393	524
Total return per share									
Basic (pence)	11.7p	26.5p	38.2p	12.3p	48.7p	61.0p	21.8p	65.2p	87.0p
Diluted (pence)	11.3p	25.6p	36.9p	12.1p	48.1p	60.2p	21.2p	63.8p	85.0p

Movement in shareholders' funds

for the six months to 30 September 2004

	6 months to 30 September 2004 (unaudited) £m	6 months to 30 September 2003 (as restated)* (unaudited) £m	12 months to 31 March 2004 (as restated)* (audited) £m
Opening balance	3,395	2,936	2,936
Prior year adjustment	(165)	(147)	(147)
Opening balance as restated	3,230	2,789	2,789
Revenue return	71	74	131
Capital return	160	293	393
Total return	231	367	524
Dividends	(32)	(31)	(84)
Proceeds of issues of shares	2	6	12
Own shares	5	(5)	(11)
Movement in the period	206	337	441
Closing balance	3,436	3,126	3,230

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 13.

Consolidated revenue statement

for the six months to 30 September 2004

	6 months to 30 September 2004 (unaudited) £m	6 months to 30 September 2003 (as restated)* (unaudited) £m	12 months to 31 March 2004 (as restated)* (audited) £m
Interest receivable on loan investments	51	43	84
Fixed rate dividends	3	4	8
Other interest receivable and similar income	21	17	33
Interest payable	(27)	(27)	(51)
Net interest income	48	37	74
Dividend income from equity shares	53	45	94
Share of net losses of joint ventures	–	–	(1)
Fees receivable	18	21	43
Other operating income	–	–	1
Total operating income	119	103	211
Administrative expenses and depreciation	(36)	(30)	(72)
Other finance income/(costs) on pension plan	1	(2)	(3)
Profit on ordinary activities before tax	84	71	136
Tax on profit on ordinary activities	(14)	(9)	(29)
Profit for the period	70	62	107
Dividends			
Interim (5.3p per share proposed, 2004: 5.1p per share paid)	(32)	(31)	(31)
Final (2004: 8.9p per share paid)			(53)
Profit retained for the period	38	31	23
Dividends per share (pence)	5.3p	5.1p	14.0p
Earnings per share			
Basic (pence)	11.6p	10.3p	17.8p
Diluted (pence)	11.2p	10.2p	17.3p

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 13.

Consolidated balance sheet

as at 30 September 2004

	30 September 2004		30 September 2003		31 March 2004	
	£m	(unaudited) £m	£m	(as restated)* (unaudited) £m	£m	(as restated)* (audited) £m
Assets						
Treasury bills and other eligible bills		1		1		1
Loans and advances to banks		718		800		534
Debt securities held for treasury purposes		225		218		284
Debt securities and other fixed income securities held as financial fixed asset investments						
Loan investments	1,408		1,229		1,312	
Fixed income shares	124		199		150	
Equity shares						
Listed	227		168		225	
Unlisted	2,619		2,410		2,639	
		4,378		4,006		4,326
Interests in joint ventures						
Share of gross assets	51		116		80	
Share of gross liabilities	(22)		(85)		(53)	
		29		31		27
Tangible fixed assets		39		43		40
Other assets		160		151		118
Total assets		5,550		5,250		5,330
Liabilities						
Deposits by banks		213		290		215
Debt securities in issue		1,207		1,103		1,128
Convertible bonds		377		384		367
Other liabilities		249		217		262
Subordinated liabilities		48		49		45
Defined benefit liabilities		20		81		83
		2,114		2,124		2,100
Called up share capital		307		306		307
Share premium account		361		354		359
Capital redemption reserve		1		1		1
Capital reserve		2,386		2,126		2,226
Revenue reserve		431		388		392
Own shares		(50)		(49)		(55)
Equity shareholders' funds		3,436		3,126		3,230
Total liabilities		5,550		5,250		5,330
Net asset value per share						
Basic (pence)		568p		518p		535p
Diluted (pence)		568p		518p		535p

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 13.

Approved by the Board
3 November 2004

Consolidated cash flow statement

for the six months to 30 September 2004

	6 months to 30 September 2004 (unaudited) £m	6 months to 30 September 2003 (as restated)* (unaudited) £m	12 months to 31 March 2004 (as restated)* (audited) £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	26	29	66
Other interest received and similar income	20	17	35
Dividends received from equity shares	53	45	93
Fees and other net cash receipts – revenue	18	20	41
– capital	15	–	5
Administrative expenses paid – revenue	(55)	(40)	(53)
– capital	(45)	(40)	(91)
Additional pension contributions	(60)	–	(13)
Net cash flow from operating activities	(28)	31	83
Returns on investment and servicing of finance			
Interest paid on borrowings – revenue	(22)	(31)	(59)
– capital	(15)	(23)	(42)
Net cash flow from returns on investments and servicing of finance	(37)	(54)	(101)
Taxation paid	(1)	(2)	(2)
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans	(426)	(194)	(756)
Sale, repayment or redemption of equity shares, fixed income shares and loan investments	605	501	913
Purchase of tangible fixed assets	(2)	(1)	(2)
Sale of tangible fixed assets	–	1	1
Net cash flow from capital expenditure and financial investment	177	307	156
Acquisitions and disposals			
Investment in joint ventures	–	–	(25)
Divestment or repayment of interests in joint ventures	5	–	25
Net cash flow from acquisitions and disposals	5	–	–
Equity dividends paid	(54)	(52)	(83)
Management of liquid resources	(146)	(162)	(15)
Net cash flow before financing	(84)	68	38
Financing			
Debt due within one year	50	(283)	(232)
Debt due after more than one year	8	265	200
Issues of shares	2	6	12
Own shares	–	(11)	(20)
Net cash flow from financing	60	(23)	(40)
Change in cash	(24)	45	(2)

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 13.

Notes to the financial statements

for the six months to 30 September 2004

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

	6 months to 30 September 2004 (unaudited) £m	6 months to 30 September 2003 (as restated)* (unaudited) £m	12 months to 31 March 2004 (as restated)* (audited) £m
Revenue profit before tax	84	71	136
Fees receivable and deal-related costs accounted for in the capital reserve	15	–	5
Administrative expenses allocated to the capital reserve	(45)	(40)	(91)
	54	31	50
Interest payable – revenue	27	27	51
	81	58	101
Depreciation of equipment and vehicles	2	3	5
Tax on investment income included within income from overseas companies	–	–	(1)
Interest received by way of loan notes	(16)	(15)	(28)
Additional pension contributions	(60)	–	(13)
Movement in prepayments and accrued income	(12)	(6)	3
Movement in accruals and deferred income	(21)	(4)	17
Movement in provisions for liabilities and charges	(2)	(5)	(2)
Reversal of losses of joint ventures less distributions received	–	–	1
Net cash flow from operating activities	(28)	31	83

2 Reconciliation of net cash flows to movements in net debt

	6 months to 30 September 2004 (unaudited) £m	6 months to 30 September 2003 (unaudited) £m	12 months to 31 March 2004 (audited) £m
Change in cash in the period	(24)	45	(2)
Cash flow from management of liquid resources	146	162	15
Cash flow from debt financing	(57)	13	33
Cash flow from subordinated liabilities	(2)	5	(1)
Cash flow from finance leases	1	–	–
Change in net debt from cash flows	64	225	45
Foreign exchange movements	(28)	(17)	27
Non-cash changes	–	(2)	5
Movement in net debt in the period	36	206	77
Net debt at start of period	(938)	(1,015)	(1,015)
Net debt at end of period	(902)	(809)	(938)

3 Analysis of net debt

	1 April 2004 (audited) £m	Cash flow (unaudited) £m	Exchange movement (unaudited) £m	Other non-cash changes (unaudited) £m	30 September 2004 (unaudited) £m
Cash and deposits repayable on demand	94	(24)	1	–	71
Treasury bills, other loans, advances and treasury debt securities	725	146	2	–	873
Deposits and debt securities repayable within one year	(160)	(50)	(9)	(7)	(226)
Deposits and debt securities repayable after one year	(1,550)	(7)	(21)	7	(1,571)
Subordinated liabilities repayable after one year	(45)	(2)	(1)	–	(48)
Finance leases	(2)	1	–	–	(1)
	(938)	64	(28)	–	(902)

*As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See Basis of preparation on page 13.

Basis of preparation

The accounting policies used in the preparation of this Interim report are the same as those used in the statutory accounts for the year to 31 March 2004, except as explained below, and are those expected to be used for the year to 31 March 2005.

Financial Reporting Standard 17 – Retirement Benefits (“FRS 17”) The Group has adopted fully the reporting requirements of FRS 17, having previously complied with the transitional requirements of the standard. Ongoing service cost, finance charges or credits and expected returns on assets are shown in the revenue return. Differences between expected and actual returns and changes in actuarial assumptions are shown as part of the capital return. The effect of adopting FRS 17 is to reduce shareholders’ funds by £110 million at 31 March 2004.

Urgent Issues Task Force Abstract 38 – Accounting for ESOP Trusts (“UITF 38”) The Group has also adopted UITF 38. This requires shares held by the 3i Group Employee Trust to be accounted for as a deduction in arriving at shareholders’ funds rather than as an asset. The effect of this is to reduce shareholders’ funds by £55 million at 31 March 2004.

Certain comparatives have been restated to reflect these changes.

The figures for the year to 31 March 2004 (before restatement) have been extracted from the accounts filed with the Registrar of Companies on which the auditors issued a report, which was unqualified and did not contain a statement under section 237(2) or section 237(3) of the Companies Act 1985. This Interim report does not constitute statutory accounts.

3i’s actual future results may differ materially from the plans, goals and expectations set forth in any of its forward-looking statements. Any forward-looking statements speak only as of the date they are made. 3i does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Independent review report to 3i Group plc

Introduction We have been instructed by the Company to review the financial information for the six months ended 30 September 2004 which comprises Consolidated statement of total return, Movement in shareholders’ funds, Consolidated revenue statement, Consolidated balance sheet, Consolidated cash flow statement and the related notes 1 to 3 and the Basis of preparation. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 “Review of interim financial information” issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report or for the conclusions we have formed.

Directors’ responsibilities The Interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data, and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2004.

Ernst & Young LLP
London
3 November 2004

New investment analysis

Analysis of the equity, fixed income and loan investments made by 3i Group (including co-investment funds). The analyses below exclude investments in joint ventures.

Investment by business line (£m)	6 months to 30 September 2004	6 months to 30 September 2003	12 months to 31 March 2004
Buyouts	305	141	492
Growth Capital	142	76	313
Venture Capital	74	56	174
Total	521	273	979

Investment by geography (3i only – excluding co-investment funds) (£m)			
UK	152	53	309
Continental Europe	222	134	401
US	35	18	61
Asia Pacific	13	6	13
Total	422	211	784

Investment by geography (including co-investment funds) (£m)			
UK	201	65	375
Continental Europe	268	182	526
US	35	18	61
Asia Pacific	17	8	17
Total	521	273	979

Continental European investment (£m)			
Benelux	14	52	73
France	81	12	89
Germany/Austria/Switzerland	89	48	186
Italy	10	18	19
Nordic	46	27	106
Spain	26	20	34
Other European*	2	5	19
Total	268	182	526

*Other European includes investments in countries where 3i did not have an office at the period end.

Investment by FTSE industrial classification (£m)			
Resources	89	4	11
Industrials	125	53	219
Consumer goods	69	80	306
Services and utilities	142	66	290
Financials	59	20	33
Information technology	37	50	120
Total	521	273	979

Portfolio analysis

The Group's equity, fixed income and loan investments total £4,378 million at 30 September 2004 (excluding co-investment funds). The analyses below exclude joint ventures.

Portfolio value by business line (£m)	At 30 September 2004	At 31 March 2004
Buyouts	2,291	2,306
Growth Capital	1,493	1,487
Venture Capital	594	533
Total	4,378	4,326

Portfolio value by geography (including co-investment funds) (£m)	At 30 September 2004	At 31 March 2004
UK	2,861	3,024
Continental Europe	2,473	2,299
US	269	241
Asia Pacific	83	86
Total	5,686	5,650

Portfolio value by geography (3i only – excluding co-investment funds) (£m)	At 30 September 2004	At 31 March 2004
UK	2,361	2,506
Continental Europe	1,685	1,511
US	262	234
Asia Pacific	70	75
Total	4,378	4,326

Continental European portfolio value (£m)	At 30 September 2004	At 31 March 2004
Benelux	212	181
France	296	234
Germany/Austria/Switzerland	512	454
Italy	61	53
Nordic	311	332
Spain	252	224
Other European*	41	33
Total	1,685	1,511

*Other European includes investments in countries where 3i did not have an office at the period end.

Portfolio value by FTSE industrial classification (£m)	At 30 September 2004	At 31 March 2004
Resources	171	155
Industrials	1,051	1,018
Consumer goods	1,093	1,026
Services and utilities	1,172	1,275
Financials	290	238
Information technology	601	614
Total	4,378	4,326

Portfolio value by valuation method (£m)	At 30 September 2004	At 31 March 2004
Imminent sale or IPO	258	174
Listed	227	225
Secondary market	25	29
Earnings	1,222	1,347
Cost	535	509
Further advance	174	149
Net assets	100	103
Other (including other Venture Capital assets valued below cost)	305	328
Loan investments and fixed income shares	1,532	1,462
Total	4,378	4,326

Buyout portfolio value by valuation method (£m)	At 30 September 2004	At 31 March 2004
Imminent sale or IPO	176	103
Listed	102	103
Secondary market	1	1
Earnings	684	834
Cost	87	78
Net assets	18	20
Other	75	61
Loan investments and fixed income shares	1,148	1,106
Total	2,291	2,306

Growth Capital portfolio value by valuation method (£m)	At 30 September 2004	At 31 March 2004
Imminent sale or IPO	56	38
Listed	125	122
Secondary market	24	28
Earnings	537	513
Cost	184	202
Further advance	16	32
Net assets	81	82
Other	148	169
Loan investments and fixed income shares	322	301
Total	1,493	1,487

Venture Capital portfolio value by valuation method (£m)	At 30 September 2004	At 31 March 2004
Imminent sale or IPO	26	33
Earnings	1	–
Cost	264	229
Further advance	158	117
Net assets	1	1
Other Venture Capital assets valued below cost	65	64
Other	17	34
Loan investments and fixed income shares	62	55
Total	594	533

Technology portfolio value by stage (£m)	At 30 September 2004	At 31 March 2004
Venture Capital	594	533
Late stage technology		
Quoted	131	136
Buyouts	194	305
Growth Capital	291	317
	616	758
Total	1,210	1,291

The Venture Capital portfolio comprises investments in immature businesses which typically require further funding. The late stage portfolio comprises investments in more mature, typically self-funding businesses, including investments made by way of Buyouts and Growth Capital.

Venture Capital portfolio value by sector (£m)	At 30 September 2004	At 31 March 2004
Healthcare	194	169
Communications	143	117
Electronics, semiconductors and advanced technologies	97	73
Software	160	174
Total	594	533

Realisations analysis

Analysis of the Group's realisation proceeds (excluding co-investment funds).

	6 months to 30 September 2004	6 months to 30 September 2003	12 months to 31 March 2004
Realisations proceeds by business line (£m)			
Buyouts	388	229	464
Growth Capital	133	197	339
Venture Capital	82	77	120
Total	603	503	923
Realisations proceeds by geography (£m)			
UK	445	317	608
Continental Europe	148	119	245
US	9	11	10
Asia Pacific	1	56	60
Total	603	503	923
Realisations proceeds (£m)			
IPO	34	–	7
Sale of quoted investments	38	73	118
Trade and other sales	345	298	532
Loan and fixed income share repayments	186	132	266
Total	603	503	923
Realisations proceeds by FTSE industrial classification (£m)			
Resources	60	13	14
Industrials	90	73	216
Consumer goods	90	78	167
Services and utilities	282	225	352
Financials	3	68	80
Information technology	78	46	94
Total	603	503	923

Funds under management

(£m)	At 30 September 2004	At 31 March 2004
Third party unquoted co-investment funds	1,884	1,875
Quoted investment companies*	646	600
Total	2,530	2,475

*Includes the 3i Group Pension Plan.

Ten largest investments

At 30 September 2004, the Directors' valuation of the ten largest investments was a total of £677 million. The cost of these investments is £348 million.

Investment	First invested in	Cost ¹ £m	Proportion of equity shares held	Directors' valuation ¹ £m
Westminster Health Care Holdings Ltd² Care homes operator	2002			
Equity shares		1	49.6%	101
Loans		37		37
		38		138
SR Technics Holding AG Technical solutions provider for commercial aircraft fleets	2002			
Equity shares		7	32.2%	47
Loans		50		50
		57		97
Yellow Brick Road BV³ Directory services	2004			
Equity shares		6	22.7%	35
Loans		16		47
		22		82
Betapharm Arzneimittel GmbH Supplier of generic prescription drugs	2003			
Equity shares		3	66.2%	3
Loans		63		63
		66		66
Travelex Holdings Ltd⁴ Foreign currency services	1998			
Equity shares		–	19.6%	61
		–		61
Keos SA Transport operator	2004			
Equity shares		11	41.4%	11
Loans		42		42
		53		53
ERM Holdings Ltd⁵ Environmental consultancy	2001			
Equity shares		–	38.1%	19
Loans		33		33
		33		52
Williams Lea Group Ltd Outsourced print services	1965			
Equity shares		33	38.1%	45
		33		45
Vetco International Ltd⁶ Oilfield equipment manufacturer	2004			
Equity shares		–	17.7%	–
Loans		44		44
		44		44
Tato Holdings Ltd Manufacture and sale of specialist chemicals	1989			
Equity shares		2	25.2%	39
		2		39

Notes

1 The investment information is in respect of 3i's holding and excludes any co-investment by 3i managed funds.

2 This investment has been sold since the period end.

3 In April 2004, three portfolio companies in the Telephone Directories sector were merged to form Yellow Brick Road BV. 3i's equity value was converted into a loan and into new equity shares.

4 The cost of the equity held in Travelex Holdings Ltd is £121,000.

5 The cost of the equity held in ERM Holdings Ltd is £406,000.

6 The cost of the equity held in Vetco International Ltd is £427,000.

Forty other large investments

In addition to the ten largest investments shown on page 18, detailed below are forty other large investments which are substantially all of the Group's remaining investments valued over £14 million. This does not include five investments, which have been excluded for commercial reasons.

Investment	Description of business	First invested in	Cost ¹ £m	Directors' valuation ¹ £m
Pharmadule Emtunga AB	Modular facilities to pharmaceutical/biotech, offshore and telecom sectors	2003	39	39
Refresco Holding BV	Fruit juice producer	2003	32	37
Malmberg Investments BV	Educational publisher	2001	26	37
Extec Holdings Ltd	Mobile crushers, screeners and shredders	2002	13	35
Cannon Avent Group plc	Manufacture of branded consumer products	1995	5	32
Aspen Insurance Holdings plc ²	Property/casualty insurance underwriters	2002	30	31
Grup Maritim TCB SL	Operation of port concessions	1999	13	29
LDV Ltd	Manufacture of light commercial vehicles	1993	28	29
Total Home Entertainment Ltd	Wholesale and distribution of home entertainment products	2003	28	28
Goromar XXI SL	Manufacturer of frits and glazes for ceramic tiles	2002	28	28
Alö Intressenter AB	Manufacture of front end loaders	2002	28	28
CSR plc ²	Single chip wireless systems	1999	2	27
Smartstream Technologies Group Ltd	Software and services	2000	26	26
Morse plc ²	Technology integrator	1995	8	25
Vonage Holding Corporation	VoIP service provider	2004	15	25
HSS Hire Service Holdings Ltd	Tool hire	2004	25	25
Petrofac Ltd	Oilfield services	2002	22	22
Target Express Ltd	Freight transport by road	2000	43	22
Vendôme SA	Manufacturer of cosmetic and toiletry products	2002	11	22
PaperPak Holdings Ltd	Manufacture of incontinence products	2002	12	21
Mölnlycke Health Care AB	Manufacture of single-use surgical and wound care products	2001	15	21
Wwmw E-Commerce International GmbH	Internet pharmacy	2001	7	21
Kaye Office Supplies Ltd	Stationery and office equipment wholesalers	1993	6	20
Mettis Group Ltd	Manufacture and sale of forgings	1999	38	20
Incline Global Technology Services Ltd	Repair and remanufacture of flat panel displays	2002	20	20
Informa Group plc ²	Business to business publishing	1995	1	19
Nova Rodman SL	Boat manufacturer	2004	19	19
Malachite 1 Ltd	Coin meter based hire purchase	2004	19	19
Local Press Ltd	Newspaper publisher	2004	18	18
CID Car Interior Design Holding GmbH	Manufacture of vehicle interior trims	2004	17	17
Venture Production plc ²	Oil and gas production	1997	3	17
Envac Centralsug AB	Automated waste collection	2001	3	17
Specialised Petroleum Services Group Ltd	Oilfield wellbore clean up	1999	16	16
Asia Multiplex SARL	Multiplex cinema operator	2002	10	15
Pilgrim Food Holdings Ltd	Supplier of food ingredients	1996	1	15
Hyva Investments BV	Branded hydraulics to commercial vehicles	2004	15	15
Vétoquinol SA	Development, manufacture and distribution of vet pharmaceuticals	2003	14	15
Westvan (2001) Ltd	Specialty paper manufacturer	1995	15	15
Foster Yeoman Ltd	Limestone and granite quarries	1985	7	15
SIA Groupe SA	Interior decoration design and distribution	2001	14	14

Notes

1 The investment information is in respect of the Group's holding and excludes any co-investment by 3i managed funds.

2 Quoted company (including secondary markets).

Information for shareholders

Financial calendar

Ex-dividend date	1 December 2004
Record date	3 December 2004
Interim dividend expected to be paid	5 January 2005

Shareholder profile

 Location of investors at 30 September 2004

UK (including retail shareholders)	82.01%
US	9.52%
Continental Europe	6.95%
Other international	1.52%

At 30 September 2004, the number of shares in issue was 613,837,483.

Registrars For shareholder administration enquiries, including changes of address, please contact:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone +44 (0)870 600 3970

PDF versions of frequently used Registrars' forms are available on our Investor relations website www.3igroup.com

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc, please contact:

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or visit our investor relations website www.3igroup.com for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

3i Group plc is authorised and regulated by the Financial Services Authority as a deposit taker.

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