11 May 2006

3i Group plc announces strong results and £700 million return to shareholders

Preliminary results for year to 31 March 2006

	2006	2005*
Total return on opening shareholders' funds	22.5%	15.2%
Net asset value per share (diluted)	739p	614p
Final dividend	9.7p	9.3p
Realised profits on disposal of investments	£576m	£250m
New investment	£1,110m	£755m
Realisation proceeds	£2,207m	£1,302m

Highlights

- A total return of £831 million representing a return of 22.5% on opening shareholders' funds.
- Realisation proceeds on the sale of assets of £2,207 million generating realised profits of £576 million. Realisations were made at an uplift of 35% over opening values.
- Investment of £1,110 million (£1,322 million including co-investment funds).
- Final dividend of 9.7p, making a total ordinary dividend for the year of 15.2p, up 4.1%.
- Announcement of intention to return £700 million to shareholders through a bonus issue of listed B shares.

Baroness Hogg, Chairman of 3i Group plc, said: "A strong position in a buoyant market enabled the Group to deliver a return of £831 million for the year. In addition good progress has been made towards achieving our vision. Another year of strong cash flow enables us to make further substantial returns of capital to shareholders."

3i's Chief Executive, Philip Yea, said: "With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value."

Commenting on the outlook, he added: "Markets remain favourable, and although we expect our levels of realisations in the new financial year to be below last year's exceptional levels, we expect to increase our level of investment again if the present economic conditions continue."

*As restated to reflect the adoption of International Financial Reporting Standards (IFRS)

Return of capital to shareholders

The Board of 3i Group plc also announces the proposed return of £700 million to shareholders. The proposed cash return is currently expected to be made by way of a bonus issue of listed B shares accompanied by a share consolidation designed to maintain comparability of share price and earnings per share. This is currently expected to take place in July.

Resolutions relating to the return of capital proposals will be put to shareholders at an Extraordinary General Meeting. A circular convening the EGM and giving more information and detail on the proposals is expected to be sent to shareholders in June.

- ends -

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For further information regarding the announcement of 3i's annual results to 31 March 2006, including video interviews with Philip Yea and Simon Ball (available 7.15am) and a live webcast of the results presentation (at 10.00am, available on demand from 2.00pm), please see www.3igroup.com.

Notes to editors

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.

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.

Chairman's statement

3i entered the financial year with strong momentum and buoyant market conditions, which continued throughout the period. Our market position enabled the Group to take advantage of these factors and to deliver a return of £831 million for the year to 31 March 2006. This was substantially up from £501 million last year and represented a return of 22.5% on opening shareholders' funds.

Having invested in and developed companies of strategic value to others, 3i was well placed to sell into receptive markets. Realisations totalled £2.2 billion and were made at a profit of 35% over opening value.

The Board is recommending a final ordinary dividend of 9.7p, making a total ordinary dividend for the year of 15.2p, up 4.1% on last year. Meanwhile, the £500 million return of capital approved by shareholders at our EGM last year has essentially been completed. The Board intends to return a further £700 million to shareholders by way of a bonus issue of listed B shares, which is currently expected to take place in July. Resolutions relating to the return of capital proposals will be put to shareholders at an Extraordinary General Meeting.

High quality new investment is a key driver of future value. Despite remaining highly selective, we were able to increase investment by 47% to £1.1 billion, drawing on our in-depth sector knowledge and local relationships in a range of different markets. The international proportion of our investment rose in the year to 63% and our widening international reach is illustrated by the fact that over half of our assets are now outside the UK.

In Asia we established teams in Shanghai and Mumbai during the year, and made ground-breaking investments in both China and India. 3i's Growth Capital business has also recently entered the US Market and, in addition, our Infrastructure team is now in place and has made a number of investments.

We have been planning for some time to establish an Advisory Board for our business in Germany. I am delighted to report that Dr Peter Mihatsch, who has been on the Group Board since 2004, has agreed to become Chairman of this new Advisory Board. However, as he would then no longer be categorised as an independent non-executive Director, this means he will be stepping off the 3i Group Board at the end of July. I would like to thank him for the contribution he has made as well as the still greater one he will be making to 3i in the future.

I would also like to thank Danny Rosenkranz, who is Chairman of the Remuneration Committee and has been on the Board for six years. Danny has agreed to stand for re-election for a further year to support Sir Robert Smith, who will be taking on the chairmanship of the Remuneration Committee in August.

Underpinning this year's performance is a high level of staff engagement. A survey of our staff during the year, conducted by Ipsos MORI, showed high commitment, and that 3i's level of staff engagement exceeded that of many other leading companies.

This commitment also characterises our approach to corporate responsibility. For a company like 3i, our direct impact on the community and the environment will be much less significant than that of the companies in which we invest. We nevertheless are refining measurement of our own impact, while continuing to review our standards for these issues in portfolio selection and management.

I would like to thank all our staff for their skill, effort and teamwork in achieving these good results and also pay tribute to the management teams and the advisers of our portfolio companies.

So, in summary, this has been a good year for 3i shareholders, with the Group taking advantage of favourable market conditions, delivering a high level of return on shareholders' funds, growing investment levels and improving the strategic position of the business. In developing our strategy we will continue to combine ambition with rigour in pursuit of value for our investors.

Baroness Hogg
Chairman
10 May 2006

Chief Executive's statement

I am pleased to report a very good set of full year financial results and further progress in implementing the plans we set for the business over the past 18 months. In particular, these results provide tangible evidence of the continued success of our Buyout business and the benefits of the recent strategic changes made to the models for our Growth Capital and Venture Capital business lines.

Financing markets continue to be favourable, with the private equity markets giving high valuations to good assets. These conditions have provided the opportunity for us to achieve a record level of realisations and also realised profits. All of our business lines have been active sellers into these markets. Yet, at the same time, each of our three core business lines has increased its level of new investment. The most notable increase was within the Growth Capital business, reflecting its focus on larger deal sizes when compared to a year ago and the growing importance of Asia within our strategy.

The rate of growth in private equity markets over the last decade has, for many people, raised genuine questions as to the sustainability of returns and the relative advantages of this ownership model as the asset class becomes more mainstream. We continue to believe that there is more than ample opportunity and that the key issue for the Group is to leverage its competitive advantage in those particular markets which provide greatest returns over the mid term.

Our teams in Asia have been strengthened, our teams in the US are being reinforced and, more indirectly, we have made a number of investments in selected funds which can bring exposure to specific geographies or asset classes that we cannot achieve on our own.

We have recently completed a comprehensive strategic review of both our current and future business areas within the private equity field and, where appropriate, will continue to use our balance sheet to develop new business lines, and our knowledge-sharing culture and market access to attract new people to join us.

As part of this review, we have also looked in detail at the opportunities and structure of each of our current business lines. We have concluded that we should increase the mix of late-stage investment within our Venture Capital business, an area which particularly plays to our international differentiation. As a result of this change we have amended our cash to cash IRR target for this business line to 25%, with vintage year volatility of plus or minus 15%. We have also confirmed the opportunity for both this business and our Growth Capital business within the US, and are building our local teams accordingly.

I am very pleased with the further steps we have taken on our people agenda.

In a rapidly growing industry where experience is critical and personal compensation at the most senior levels is performance related and uncapped, it is critical to ensure that both the financial and non-financial elements of our people proposition are as competitive as they can be. To supplement the carry schemes which we have implemented across our business lines, we have also introduced market aligned co-investment schemes whereby members of our investing team make personal investments alongside 3i and third party investors' capital.

We have also made further changes to our internal organisation to ensure that we give our investing teams maximum flexibility to operate as self-standing partnerships with the same operational flexibility as their competitors, yet enable them to be both the beneficiaries of and contributors to the network of knowledge sharing that differentiates 3i from most firms within our field. Our Business review which follows, contains a number of examples showing this culture of cross-geography cross-business line co-operation at its very best.

To reflect the ambitious nature of our agenda, we have also created a Group Partnership, which brings together those senior business leaders who can make the broadest contribution to the further development and expansion of the firm.

The recent move of our London office to more modern premises has had a significant impact in terms of communications and produced an enhanced experience for visitors to 3i, as well as an improved working environment.

We have also reviewed our capital requirements over the coming period and, notwithstanding the significant level of opportunity we have identified, we believe it is appropriate to make a further return of cash to shareholders. Although accounting for the equity option within the Convertible Bond issued in 2003 has, under IFRS, reduced reported profits (and will continue to do so if we are successful in delivering shareholder value through an increase in the share price), the flexibility to satisfy the bond redemption in 2008 in either cash or shares provides a significant equity cushion should realisation markets slow for any reason.

Markets remain favourable and, although we expect our levels of realisations in the new financial year to be below last year's exceptional levels, we expect to increase our level of investment again if the present economic conditions continue.

With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value.

Philip Yea
Chief Executive
10 May 2006

Business review

Group strategy

Our strategy is to grow our assets and those the Group manages on behalf of third parties by using our relationships and knowledge to identify and invest in opportunities that can deliver high returns. Change provides opportunity, and as 3i operates across Europe, Asia and the US, the rapid rate of change in the global economy provides a significant number of investment opportunities where our knowledge and relationships, when combined with active management, can deliver real financial value.

We are constantly reviewing developments in the private equity markets, the competitiveness of our existing business lines and the potential to expand our access to good opportunities. Where appropriate, we use our capital to fund additional resources, to seed new proprietary business lines and to build relations with other investment managers who can give us exposure to an attractive market.

Our people are organised in self-standing teams whose structure is market-adapted, whose compensation is results-oriented, and which have as their principal objective the selection of the very best opportunities within our chosen asset classes. We seek to maximise our performance by the delivery of our collective knowledge and relationships to each investment opportunity. Our teams are both the contributors to, and the beneficiaries of, this culture of knowledge sharing.

Key to our strategy is attracting and developing people who can combine the requisite investment and professional experience with our cultural fit. Part of this culture is an active approach to managing development.

Our financial and risk management processes are focused on delivering targeted returns on asset specific pools of capital, whilst optimising the mix between returns on proprietary invested capital, income received from fees on third-party funds and setting appropriate leverage ratios.

Our business

Group

The Group's investment focus is on buyouts, growth capital and venture capital. At 31 March 2006: Buyouts represented 35% of our portfolio; Growth Capital 31%; and Venture Capital 20%.

Additionally, we have a portfolio of Smaller Minority Investments, which accounts for 14% of the portfolio. It is our objective to realise this portfolio progressively in the near term.

We are a knowledge-based company providing market access, insight for investment decision making and the ability to add significant value to the companies in which we invest.

We use our international network to identify and assess a wide range of investment opportunities, selecting only those that meet our return and quality criteria. Having made an investment, we then work in active partnership with the boards of our portfolio companies to create value through to the ultimate realisation of our investment.

We operate through a network of teams located in Europe, Asia and the US. Europe is our principal region with some 90% of the investment portfolio by value based in this market. We continue to increase our presence in new markets. During the year, teams were formed in Shanghai and Mumbai and, most recently, in New York to extend our Growth Capital business.

Consistent with our strategy of investing in third-party private equity funds to gain market access and additional opportunities to add value to our portfolio, we made investments in Israel and Russia during the year. These accompany existing investments in funds in China, eastern Europe and Japan.

The benefits of having access to permanent capital from our own balance sheet also enable us to take a more flexible and longer-term approach to the structuring of individual investments.

Buyouts
This business line invests in European mid-market buyout transactions with a value of up to €1billion and targets around 15 investments per year. These investments typically involve 3i investing with co-investment funds managed by 3i. Investments are in businesses with development potential where we can work with an incentivised management team to grow value through operational improvements and by exploiting market opportunities. These businesses are generally sold by large corporates disposing of non-core activities, private groups with succession issues or, in the case of a secondary buyout, other private equity investors.

A key to our success is our international network, which enables us to access markets as a "local" participant and to apply to each opportunity the knowledge, skills and sector experience of our much larger pan-European resource. An intimate understanding of the economic model that drives the companies that we invest in is critical, as is the value creation plan that supports each investment decision.

Competition in the European buyout market is intense and the high level of historic returns achieved has continued to attract new entrants, including some non-traditional competitors, such as hedge funds.

Despite the strong competition, we are confident that through a combination of our scale, local knowledge and sector insight, we can build on our position as the leading European mid-market buyout house.

We will also actively review the opportunities to expand our Buyout business beyond Europe, particularly as we build Group-wide experience in Asia.

Growth Capital
Our Growth Capital business targets investments of between €10 million and €150 million, across a broad range of sectors, business sizes and funding needs. We aim to invest in between 20 and 30 such transactions per year and it is our strategy to continue to grow the average size of investment.

Growth capital investments typically involve 3i acquiring substantial minority stakes in privately-owned businesses at key points of change. Growth capital can be invested to accelerate organic growth, to fund acquisitions or to acquire shares from existing shareholders to resolve a succession or other ownership issue. With such minority positions, we seek to ensure a high level of influence to create value for shareholders.

Success in growth capital is increasingly driven by deep sector knowledge and the ability to add value to companies expanding internationally, through giving them access to 3i's network. These factors, combined with 3i's traditional strength in managing relationships with regional businesses and intermediaries, give 3i significant competitive advantage.

To date, our Growth Capital business has focused on the European and Asian markets where we have strong networks and relationships and see good opportunities to invest. During the year, we extended our reach by entering the US market.

The competitive environment in the growth capital market is more attractive than in the buyout market. Additionally, not all private equity funds' mandates provide the freedom to make minority investments. Our permanent capital differentiates us from other private equity investors, enabling us to make not only minority investments, but provide more flexible longer-term funding.

A dedicated infrastructure team has also been created within this business line with the goal of building a high-quality portfolio in this asset class. Our investment strategy here is threefold: direct investment in infrastructure projects; investment in infrastructure funds; and creating portfolios of infrastructure assets to bring to the market.

Venture Capital
Our Venture Capital business is focused on early and late-stage technology investing and targets investments in the range of €2 million to €50 million. The four main sub-sectors are: healthcare, communications, software and ESAT (Electronics, Semiconductors and Advanced Technologies).

The main geographic focus continues to be Europe and the US, though we have made venture investments in Asia. As venture businesses typically compete globally, each investment opportunity is reviewed by reference to the relevant global sub-sector's competitive landscape.

We work closely with each company we invest in to create a route map to becoming a scalable, successful business. We are a selective, active investor and we sit on the boards of the majority of companies in which we invest. We work in partnership with our investee management teams to add value by utilising 3i's global network of relationships. Through these relationships, we will often introduce new partners, customers and suppliers, and because our network is international, we can help young businesses to bridge the gap to new markets.

Our Venture Capital business has a prominent position in Europe with a strong track record of investment and divestment. Competition is strong in markets such as the UK, where many US firms are active. However, we continue to be well placed here and in other European venture markets. The US market is highly competitive but our global network, sector focus and international offering position 3i well alongside local firms.

Our markets

Europe
Europe is our principal geographic market, with the majority of our assets and investment activity being conducted in this region. Our business strategy is focused on harnessing our strong regional presence and deep sector experience.

2005 was a record year for the market, with the level of fundraising being twice that of the previous year and total investment increasing by 39%. A number of substantial buyout deals in the UK and across continental Europe were a major contributor to this record level of activity.

European buyout investment increased by 44%, driven by increased M&A and secondary market activity, the return of trade buyers and improved IPO markets.

Activity levels in the growth capital market in 2005 were similar to 2004, although this market presents an excellent opportunity as the economy continues to restructure, sectors consolidate and companies seek to expand internationally.

The venture market is showing increased levels of investment and capital market activity.

The year also saw divestments in Europe at record highs as favourable exit conditions were prevalent. The return of trade buyers, improved IPO markets, secondary sales and increased M&A activity were all strong sources of exits.

Asia

This region comprises a number of stand-alone markets and each market has very different characteristics. Asian markets are in the growth phase and forecast macroeconomic growth rates make this a particularly attractive region for private equity investment.

At the present time, Asia is predominantly a growth capital market for 3i. However, we expect to develop Buyout and Venture Capital teams in the longer term.

Currently, India and China represent the highest potential private equity markets, although we will seek opportunities to develop our business in Japan, South Korea, and South East Asia.

In 2005 the Asian private equity industry has seen a very significant increase in incoming funds compared to 2004, with India leading the way. Investment increased 29%, with growth capital returning to prominence. Japan accounted for the largest proportion of capital returned to investors, followed by India and China. IPOs were the most preferred exit route, making up 50% of divestments, although trade sales remained the dominant exit route in Japan.

The US

Venture capital has been our focus in the US, where we have invested in both early and late-stage technology companies. During the year, we recruited a Growth Capital team to take advantage of the opportunities in this market and complement our investment teams in Europe and Asia.

The US continues to be the largest and most attractive venture capital market in the world. The market is characterised by a high level of competitiveness, access to technology and clusters of innovation, combined with significant numbers of serial entrepreneurs. Our leading competitors are typically niche partnerships operating domestically.

US venture capital investing in 2005 rose to its highest level since 2001. Market activity was based on the strong fundraising environment of 2004 and 2005, which contributed to increased investment levels. Improved exit markets, particularly for venture-backed companies, was another important contributor.

Group financial review

Total return

3i achieved a total return for the year to 31 March 2006 of £831 million, which equates to a 22.5% return on restated opening shareholders' funds (2005: 15.2%). A key feature of this return is the very strong level of realised profits on disposal of investments where, throughout the year, we have benefited from good market conditions for sales.

Total return

	2006 £m	2005 (as restated)* £m
Realised profits on disposal of investments	**576**	250
Unrealised profits on revaluation of investments	**245**	245
Portfolio income	**232**	232
Gross portfolio return	**1,053**	727
Net carried interest	**15**	(64)
Fund management fees	**24**	30
Operating expenses	**(211)**	(177)
Net portfolio return	**881**	516
Net interest payable	**(17)**	(42)
Exchange movements	**47**	13
Movements in the fair value of derivatives	**(78)**	13
Other	**19**	(2)
Profit after tax	**852**	498
Reserve movements (pension, property and currency translation)	**(21)**	3
Total recognised income and expense ("Total return")	**831**	501

*As restated for the adoption of IFRS.

As indicated in the table below, we have generated a very good level of gross portfolio return of £1,053 million (2005: £727 million), representing 24.4% on opening portfolio value (2005: 16.7%). Each of our core business lines has generated higher returns, with Venture Capital showing the most improved result over last year. Buyouts and Growth Capital are operating at the top end of their long-term target ranges, with returns of 29% and 26% respectively.

Return by business line (£m)

	Buyouts		Growth Capital		Venture Capital		SMI		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005 (as restated)*
Gross portfolio return	**447**	301	**341**	285	**128**	76	**137**	65	**1,053**	727
Return as % of opening portfolio	**29%**	20%	**26%**	23%	**17%**	11%	**18%**	7%	**24%**	17%
Net portfolio return									**881**	516
Return as % of opening portfolio									**20%**	12%
Total return									**831**	501
Total return as % on opening shareholders' funds									**22%**	15%

*As restated for the adoption of IFRS.

The Group's gross portfolio return of 24% compares with 17% in 2005. After costs and carried interest, the net portfolio return is 20% (2005: 12%). The reduction of 4% from the gross level is below our anticipated range of 5% to 6%, as net carried interest benefited from significant carry receivable in the year.

Through gearing the balance sheet to an appropriate level, we would expect to enhance total return on opening shareholders' funds by some 4% from the net level. However, given the low level of gearing in our opening balance sheet, the benefit from leverage was below our long-term expectation.

Investment
3i invested a total of £1,110 million in the year, significantly up on the £755 million invested in 2005. Having entered the year with a very strong pipeline of new opportunities, some significant individual investments were made in the first half, including NCP (£96 million) and Giochi Preziosi (£61 million). The split of investment across our regions reflected our increasingly international focus, with 63% invested outside the UK. Investment, including co-investment funds, totalled £1,322 million. Consistent with our strategy, the most notable increase by business line was within Growth Capital.

Across the Group we invested in 58 new assets in the year (2005: 67). We also increased our investment in established funds to gain exposure to new or emerging markets. We invested a total of £111 million (2005: £26 million), 10% of our total outlay, into these externally managed funds. This included five new funds into which we committed £242 million (of which £97 million was invested during the year), the largest of these being the I^2 infrastructure fund (£79 million invested).

The average investment size in the other 53 new assets was £15 million (2005: £8 million), in line with our strategy of increasing deal size within the "mid-cap market" segment.

Realisations and realised profits
Realisation proceeds for the year were £2,207 million, an increase of 70% over 2005. The favourable market conditions experienced in the first six months continued throughout the second half, enabling strong realisations across all business lines. We also made further progress in selling down the SMI portfolio, realising £268 million from 278 investments. In total, 38% of our opening portfolio value was realised during the year.

In continental Europe realisations totalled £891 million (2005: £365 million), reflecting the maturity of the portfolio which we have built up in this region.

Realisations were made at a profit over opening carrying value of £576 million (2005: £250 million), representing an uplift on sale of 35%, and are stated net of write-offs of £66 million (2005: £37 million).

During the year, 15 of our portfolio companies achieved IPOs across nine different markets and £229 million of realisation proceeds were raised through sales at the time of flotation or subsequently. Sales from other quoted portfolio companies generated proceeds of £143 million.

Cash proceeds have also been generated through refinancing portfolio businesses where we have realised £168 million and through secondary buyouts, where we have sold 10 assets for £404 million.

Unrealised value movement
The unrealised profit on revaluation of investments was £245 million (2005: £245 million). An analysis of the components of this return is given in the following table.

Unrealised profits/(losses) on revaluation of investments

	2006	2005
		(as restated)*
	£m	£m
Earnings multiples (1)	**41**	40
Earnings	**95**	20
First-time uplifts (2)	**70**	149
Provisions (3)	**(62)**	(66)
Up rounds	**3**	36
Uplift to imminent sale	**97**	101
Other movements on unquoted investments	**(29)**	(45)
Quoted portfolio	**30**	10
Total	**245**	245

*As restated for the adoption of IFRS.

(1) The weighted average earnings multiple applied to investments valued on an earnings basis increased from 12.0 to 12.2 over the year.
(2) The net valuation impact arising on investments being valued on a basis other than cost for the first time.
(3) Provisions against the carrying value of investments in businesses which may fail.

The aggregate attributable earnings of investments valued on an earnings basis at both the start and end of the year increased by 5%, giving rise to a value increase of £95 million (2005: £20 million).

Assets which were revalued on an imminent sale basis generated value uplifts of £97 million, reflecting the good realisations pipeline at the year end.

Portfolio income
Portfolio income of £232 million (2005: £232 million) includes reduced depreciatory dividends (arising on the sale of more mature assets), offset by increased interest income from a number of new higher-yielding investments. Negotiation fees for new investments have risen with increased investment levels.

Net carried interest
Carried interest payable for the year was £64 million, which is offset by carry receivable of £79 million.

Carried interest payable is broadly in line with last year's level, despite the increase in proceeds, as a number of realisations were from early vintages with no associated carry schemes, or from carry schemes which have yet to reach the hurdle at which carry payable is accrued.

Carry receivable of £79 million relates primarily to Eurofund III, 3i's 1999 pan-European fund, whose cumulative performance in the first half passed through the point at which carried interest receivable within 3i's financial statements is triggered. The accrual at 31 March 2006 has been calculated on a fair value basis and includes carry receivable relating to realised and unrealised value increases arising on assets in more recent vintages, including Eurofund IV.

Costs
Operating expenses totalled £211 million (2005: £177 million). The increase over last year reflects higher variable remuneration costs arising on the improvement in total returns and costs associated with implementing new strategic initiatives. Operating expenses include a charge in respect of share-based payments, to reflect the fair value of options and other share-related rewards granted to employees, of £8 million (2005: £6 million).

Net interest payable for the year was £17 million, reflecting the considerable fall in net borrowings resulting from our net realisation proceeds and an increase in the proportion of borrowing in non-sterling currencies for which interest rates were more favourable during the year.

Other movements
Unrealised value movements in the fair value of derivatives of £(78) million were recognised in the income statement for the first time, having adopted IFRS. £(75) million of this movement relates to the valuation of the equity derivative embedded in the €550 million 2008 Convertible Bond. The movement is the product of a number of factors, the most significant of which was the increase in the Company's share price of 40% in the year.

Exchange movements of £47 million arose in respect of the US dollar denominated investment portfolio. As the dollar strengthened relative to sterling, the currency risk relating to this portfolio is now substantially hedged.

Cash flows
Net cash inflow for the year was £550 million, reducing net borrowings, including the Convertible Bond, to £56 million at 31 March 2006 (2005: £545 million).

During the year, capital was returned to shareholders through the payment of £245 million by way of a special dividend of 40.7p per share and a further £222 million of on-market share buy-backs, as approved by shareholders at an Extraordinary General Meeting following the 2005 Annual General Meeting.

Capital structure
3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash. In managing our capital structure, we seek to balance the current needs of the business with our ability to support new business growth. Total shareholders' funds at 31 March 2006 were £4,006 million (2005: £3,699 million), the main components being capital reserves of £3,110 million, revenue reserves of £263 million and share capital and share premium of £668 million.

Total Group borrowings at 31 March 2006 were £1,474 million, which is repayable as follows: £231 million, less than one year; £643 million, between one and five years; and £600 million, greater than five years. At the year end, 3i had committed and undrawn borrowing facilities of £488 million, and cash and liquid assets totalling £1,955 million. Additionally, as noted above, in 2003, 3i issued a €550 million Convertible Bond due in 2008.

Gearing
3i's listed status and permanent capital structure enables the Group to enhance returns to shareholders through leveraging our equity. The Board's view is that a gearing ratio of debt to shareholders' funds set between 30% and 40% is appropriate across the cycle, given the current investment profile.

Despite growing our investment by 47% and returning £467 million of capital to shareholders, during the year the exceptionally high level of realisations caused gearing at 31 March 2006 to fall to 1% (2005: 15%).

Taking account of future cashflow projections and the development plans of the business, the Board has proposed a further return of £700 million by means of a bonus issue of listed B shares accompanied by a share consolidation designed to maintain comparability of share price and earnings per share. This is currently expected to take place in July 2006.

Growth in diluted net asset value
Diluted net asset value ("NAV") per share was 739p at 31 March 2006, which compares with 614p at 31 March 2005, an increase of 125p, reflecting the strong results for the year.

Portfolio
The value of the portfolio at 31 March 2006 was £4,139 million (2005: £4,317 million). The reduction in portfolio value resulted from the high level of realisations in the year. Other movements include transfers of assets into the portfolio previously held through joint ventures and the currency movement in the year.

At 31 March 2006, 6% of the portfolio value was held in investments in quoted companies (2005: 5%).

The number of investments in the portfolio continues to fall, reflecting the high number of realisations in the year, our policy to seek investment opportunities in fewer larger deals and our strategy to reduce portfolio numbers within SMI. At 31 March 2006, the number of investments stood at 1,087 (excluding SMI: 561), down from 1,502 (excluding SMI: 695) at the beginning of the year.

Accounting policies
As a result of the Group's adoption of IFRS, certain accounting policies have been amended. Prior year figures have been restated so as to provide meaningful comparison with the results for the year to 31 March 2006.

The major changes are as follows:

- derivative financial instruments are now held at fair value and any movements in value taken to the income statement;

- a charge is made in the income statement in respect of share-based payments based on the intrinsic value of awards at grant date;

- foreign currency items in the Group's income statement are converted at the actual exchange rate and not the year end rate;

- dividends declared after the balance sheet date are not recognised as a liability at the balance sheet date.

There have been no significant changes to 3i's valuation policy in the year. However, to comply with IFRS, discounts are no longer applied to market prices and quoted investments are valued at bid price rather than mid price.

Buyouts

Gross portfolio return
The Buyout business generated a gross portfolio return of 29% for the year to 31 March 2006 (2005: 20%), which is at the top end of our target return range across the economic

cycle. The business has now achieved or exceeded its target in each of the last three financial years through a combination of investment discipline and a favourable market environment.

Investment and realisations
Investment (excluding third party co-investment funds) for the 12 months to 31 March 2006 was £451 million (2005: £338 million). Investment levels were good, particularly in the first six months of the year, when the pipeline for new investment was exceptional. The lower level of investment in the second half reflects the continued competitive conditions in the European buyout market. Despite these competitive conditions, the business generated significant deal flow through its pan-European origination capability.

Realisations (excluding third party co-investment funds) for the same period were very strong with £877 million of realisation proceeds being generated (2005: £505 million). This reflected the underlying quality of the assets in the portfolio and the continued buoyant financial markets.

Portfolio health
The underlying health of our Buyout portfolio has been good since the new business model was introduced in 2001. The strong performance of the portfolio is underpinned by the low loss rate that we have seen on our investments in Eurofunds III and IV, which at the year end stood at 3% of investment cost.

Fund management
The third party co-investment funds that 3i raises are co-invested alongside our own capital when financing buyouts. In the year to 31 March 2006, 3i earned fee income of £24 million (2005: £27 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of the performance of these funds. During the year, 3i recognised £79 million of carry receivable which relates primarily to Eurofund III, 3i's 1999 pan-European Buyout fund.

Our Buyout business is currently investing Eurofund IV, the €3.0 billion fund that was raised in 2003. The fund was 75% committed at 31 March 2006 and, consistent with industry fund raising practices, 3i intends to raise its Eurofund V mid-market buyout fund during the financial year ending 31 March 2007.

Growth Capital

Gross portfolio return
The Growth Capital business generated a gross portfolio return of 26% to 31 March 2006 (2005: 23%). This is the third consecutive year that the Growth Capital business has generated returns at the higher end of its return objectives.

Investment and realisations
Investment for the 12 months to 31 March 2006 was £497 million (2005: £263 million). The increase in investment was driven by several factors, including a focus on larger investments and a good contribution from our new infrastructure team. During the year, 22 new investments were made at an average of £20 million (2005: £6 million).

Included in the investment total were investments of £108 million made in other funds including I^2, the UK infrastructure fund, and CDH China Growth Capital Fund II.

Realisation proceeds of £855 million were very strong and significantly higher than last year (2005: £443 million). This strong performance reflects the underlying quality of the assets in the Growth Capital portfolio and the continued buoyant financial markets.

Regionally, the UK accounted for 53% of Growth Capital realisations, continental Europe accounting for 34% at £293 million was up from £103 million in 2005. Asia delivered £66 million of Growth Capital realisations (2005: £6 million).

Portfolio health
The underlying health of our Growth Capital portfolio is good. At 31 March 2006, 84% of our investments were classified as healthy, against a three year rolling average of 74%. This reflects improved investment disciplines combined with investing in larger and more established businesses in our recent vintages.

Venture Capital

Gross portfolio return
The Venture Capital business generated a gross portfolio return of 17% to 31 March 2006 (2005: 11%). This improvement in performance was driven by a number of factors, most importantly organisational changes made to integrate the team into a truly international partnership across Europe and the US and enhanced portfolio management disciplines.

As returns have improved in our Venture business, so has the amount of investment in late-stage technology increased. When compared with early-stage technology, late-stage has lower return characteristics, but considerably less volatility. In the year to 31 March 2006, 44% of our Venture Capital investment was in late-stage and we anticipate that this percentage could rise to as much as 70% in the near term.

We have therefore reviewed the return objectives for our Venture Capital business in the light of this changing mix, and adjusted both the volatility and the overall return objectives as a consequence. The new gross portfolio return objective for the business remains higher than that for Buyouts and Growth Capital at 25%, and vintage year and cyclical volatilities have been set at 15% and 7% respectively.

Investment and realisations
Investment for the 12 months to 31 March 2006 was £156 million (2005: £143 million). It is the team's objective to invest between £175 million and £225 million per annum.

Realisation proceeds of £207 million were 33% higher than last year (2005: £156 million). The increase in realisations reflects an increased appetite of corporate buyers and, to a degree, the public markets for venture capital companies. Six Venture Capital portfolio companies achieved a flotation during the year, with the healthcare, drug discovery and software sectors being particularly active.

Portfolio health
At 31 March 2006, 67% of our Venture investments were classified as healthy, against a three year rolling average of 65%. These levels are consistent with the higher risk return profile of venture capital investing.

Risk management

3i has a comprehensive risk management framework which provides a structured and consistent process for identifying, assessing and responding to risks in relation to the Group's strategy and business objectives.

As part of this process, risks are considered across the following broad categories:

External	Risks arising from political, legal, regulatory, economic policy and competitor changes
Strategic	Risks arising from the analysis, design and implementation of the Group's business model, and key decisions on investment levels and capital allocations
Investment	Risks in respect of specific asset investment decisions, the subsequent performance of an investment or exposure concentrations across business line portfolios
Treasury and funding	Risks arising from (i) uncertainty in market prices and rates, (ii) an inability to raise adequate funds to meet investment needs or meet obligations as they fall due, or (iii) inappropriate capital structure
Operational	Risks arising from inadequate or failed processes, people and systems or from external factors affecting these

Risk management operates at all levels throughout the Group, across business lines, geographies and professional functions. It is monitored by a combination of the Board, the Audit and Compliance Committee, Management Committee and Risk Committee, supported by the Group Risk Assurance and Audit, and Group Compliance functions. The Risk Committee meets four times a year to oversee movements in risk exposures across the Group and recommends appropriate responses. Its membership includes senior representatives from investment and professional services functions.

Given their fundamental significance to the Group, investment and treasury and funding risks are managed by specific processes which are described below.

Investment risk
3i's investment appraisal is undertaken in a rigorous manner. This includes approval by the relevant business line partnerships, and where appropriate, peer review by executives from other business lines, and our international network of industry and sector specialists. Investments over £5 million are presented to an Investment Committee chaired by one of our Group Partners and comprising some of our senior investment executives.

Having made our investment decision, a rigorous process is put in place for managing the relationship with the investee company for the period through to realisation. This can include board representation by a 3i investment executive and regular internal asset review processes.

3i invests across a range of economic sectors. The portfolio is subject to periodic reviews at both the business line and Group levels to ensure that there is no undue exposure to any one sector. The valuation of 3i's unquoted portfolio and opportunities for realisation depend to some extent on stock market conditions and the buoyancy of the wider mergers and acquisitions market.

Treasury and funding risk
3i's funding objective 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 Board considers 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 individual investment managers.

Liquidity risk During the financial year, 3i generated a cash 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 committed facilities of £488 million at 31 March 2006 (2005: £764 million).

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 its sterling profits. The Board seeks 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.

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 Board seeks 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.

Consolidated income statement
for the year to 31 March 2006

	2006 £m	2005 (as restated)* £m
Realised profits over value on the disposal of investments	**576**	250
Unrealised profits on the revaluation of investments	**245**	245
	821	495
Portfolio income		
Dividends	**75**	104
Income from loans and receivables	**133**	101
Fees receivable	**24**	27
Gross portfolio return	**1,053**	727
Carried interest		
Carried interest receivable from managed funds	**79**	2
Carried interest payable to executives	**(64)**	(66)
Fund management fees	**24**	30
Operating expenses	**(211)**	(177)
Net portfolio return	**881**	516
Treasury interest receivable	**55**	46
Interest payable	**(72)**	(88)
Movements in the fair value of derivatives	**(78)**	13
Exchange movements	**47**	13
Other income	**22**	1
Profit before tax	**855**	501
Income taxes	**(3)**	(3)
Profit after tax and profit for the year	**852**	498
Earnings per share		
Basic (pence)	**152.0**	82.6
Diluted (pence)	**147.3**	81.0

*As restated for the adoption of IFRS.

Statement of recognised income and expense
for the year to 31 March 2006

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Profit for the year	**852**	498	**643**	407
Revaluation of property	**-**	(1)	**-**	(1)
Exchange differences on translation of foreign operations	**(5)**	5	**-**	-
Actuarial losses	**(16)**	(1)	**-**	-
Total recognised income and expense for the year	**831**	501	**643**	406
Analysed in reserves as:				
Revenue	**117**	129	**87**	93
Capital	**719**	367	**556**	313
Translation reserve	**(5)**	5	**-**	-
	831	501	**643**	406

*As restated for the adoption of IFRS.

Reconciliation of movements in equity

for the year to 31 March 2006

	Group 2006 £m	Group 2005 (as restated)* £m	**Company 2006 £m**	Company 2005 (as restated)* £m
Opening total equity	**3,699**	3,294	**3,626**	3,300
Total recognised income and expense for the year	**831**	501	**643**	406
Share-based payments	**8**	6	**-**	-
Ordinary dividends	**(86)**	(85)	**(86)**	(85)
Special dividends	**(245)**	-	**(245)**	-
Issues of shares	**13**	5	**13**	5
Share buy-backs	**(222)**	-	**(222)**	-
Own shares	**8**	(22)	**-**	-
Closing total equity	**4,006**	3,699	**3,729**	3,626

*As restated for the adoption of IFRS.

Balance sheet
as at 31 March 2006

Assets	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Non-current assets				
Investments				
Quoted equity investments	**259**	235	**173**	203
Unquoted equity investments	**2,514**	2,682	**1,349**	1,899
Loans and receivables	**1,366**	1,400	**735**	987
Investment portfolio	**4,139**	4,317	**2,257**	3,089
Carried interest receivable	**77**	9	**77**	9
Interests in joint ventures	**-**	46	**-**	14
Interests in Group entities	**-**	-	**1,483**	981
Property, plant and equipment	**31**	33	**9**	25
Investment property	**-**	6	**-**	-
Total non-current assets	**4,247**	4,411	**3,826**	4,118
Current assets				
Other current assets	**149**	116	**193**	165
Derivative financial instruments	**19**	35	**19**	35
Deposits	**1,108**	885	**1,052**	791
Cash and cash equivalents	**847**	314	**776**	279
Total current assets	**2,123**	1,350	**2,040**	1,270
Total assets	**6,370**	5,761	**5,866**	5,388

Liabilities				
Non-current liabilities				
Carried interest payable	**(83)**	(71)	**(83)**	(71)
Loans and borrowings	**(1,243)**	(1,196)	**(968)**	(879)
Convertible Bonds	**(365)**	(352)	**(365)**	(352)
Subordinated liabilities	**(24)**	(50)	**-**	-
Retirement benefit obligation	**(17)**	(23)	**-**	-
Deferred income tax	**(1)**	(1)	**-**	-
Provisions	**(5)**	(5)	**-**	-
Total non-current liabilities	**(1,738)**	(1,698)	**(1,416)**	(1,302)
Current liabilities				
Trade and other payables	**(160)**	(135)	**(271)**	(254)
Carried interest payable	**(60)**	(38)	**(60)**	(38)
Loans and borrowings	**(231)**	(102)	**(230)**	(102)
Derivative financial instruments	**(168)**	(80)	**(160)**	(66)
Current income tax	**(2)**	(2)	**-**	-
Provisions	**(5)**	(7)	**-**	-
Total current liabilities	**(626)**	(364)	**(721)**	(460)
Total liabilities	**(2,364)**	(2,062)	**(2,137)**	(1,762)
Net assets	**4,006**	3,699	**3,729**	3,626
Equity				
Issued capital	**292**	307	**292**	307
Share premium	**376**	364	**376**	364
Capital redemption reserve	**17**	1	**17**	1
Share-based payment reserve	**17**	9	**-**	-
Translation reserve	**-**	5	**-**	-
Capital reserve	**3,110**	2,613	**2,767**	2,433
Revenue reserve	**263**	477	**277**	521
Own shares	**(69)**	(77)	**-**	-
Total equity	**4,006**	3,699	**3,729**	3,626

*As restated for the adoption of IFRS.

Cash flow statement
for the year to 31 March 2006

	Group 2006 £m	Group 2005 (as restated)* £m	Company 2006 £m	Company 2005 (as restated)* £m
Cash flow from operating activities				
Purchase of investments	**(1,068)**	(719)	**(873)**	(717)
Proceeds from investments	**2,213**	1,287	**1,949**	1,184
Interest received	**67**	64	**42**	45
Dividends received	**76**	103	**70**	99
Fees received from investment and fund management activities	**46**	56	**13**	1
Carried interest received	**9**	-	**9**	-
Carried interest paid	**(30)**	(4)	**-**	-
Operating expenses	**(216)**	(224)	**(182)**	(90)
Income tax paid	**(8)**	(1)	**(5)**	-
Net cash inflow from operations	**1,089**	562	**1,023**	522
Cash flow from financing activities				
Proceeds from issues of share capital	**13**	5	**13**	5
Purchase of own shares	**(222)**	(25)	**(222)**	(25)
Dividend paid	**(331)**	(85)	**(331)**	(85)
Interest received	**50**	46	**46**	45
Interest paid	**(60)**	(81)	**(38)**	(55)
Payment of finance lease liabilities	**-**	(1)	**-**	-
Proceeds from long-term borrowings	**69**	44	**92**	-
Repayment of long-term borrowings	**(54)**	(32)	**-**	(1)
Net cash flow from short-term borrowings	**188**	(67)	**156**	(58)
Net cash flow from deposits	**(223)**	(269)	**(261)**	(285)
Net cash flow from financing activities	**(570)**	(465)	**(545)**	(459)
Cash flow from investing activities				
Purchase of property, plant and equipment	(15)	(4)	**-**	-
Sales of property, plant and equipment	24	1	**17**	-
Divestment from joint venture	2	14	**2**	3
Net cash flow from investing activities	11	11	**19**	3
Change in cash and cash equivalents	**530**	108	**497**	66
Opening cash and cash equivalents	**314**	203	**279**	213
Effect of exchange rate fluctuations	**3**	3	**-**	-
Closing cash and cash equivalents	**847**	314	**776**	279

*As restated for the adoption of IFRS.

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.

The Group’s consolidated financial statements for the year to 31 March 2006 will contain a reconciliation of total return under UK GAAP to profit under IFRS for the year to 31 March 2005 and a reconciliation of equity under UK GAAP to equity under IFRS as at 31 March 2005 and 1 April 2004 (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.

Segmental analysis

Year to 31 March 2006	Buyouts 2006 £m	Growth Capital 2006 £m	Venture Capital 2006 £m	Smaller Minority Investments 2006 £m	Total 2006 £m
Gross portfolio return					
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**
Net (investment)/divestment					
Realisation proceeds	**877**	**855**	**207**	**268**	**2,207**
New investment	**(451)**	**(497)**	**(156)**	**(6)**	**(1,110)**
	426	**358**	**51**	**262**	**1,097**
Balance sheet					
Value of investment portfolio	**1,465**	**1,284**	**826**	**564**	**4,139**

Year to 31 March 2005	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
Gross portfolio return					
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
Net (investment)/divestment					
Realisation proceeds	505	443	156	198	1,302
New investment	(338)	(263)	(143)	(11)	(755)
	167	180	13	187	547
Balance sheet					
Value of investment portfolio	1,521	1,292	748	756	4,317

*As restated for the adoption of IFRS.

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

Year to 31 March 2005	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
Gross portfolio return	502	230	3	(8)	727
Net (investment)/divestment					
Realisation proceeds	897	365	34	6	1,302
New investment	(334)	(341)	(51)	(29)	(755)
	563	24	(17)	(23)	547
Balance sheet					
Value of investment portfolio	2,258	1,693	277	89	4,317

*As restated for the adoption of IFRS.

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

*As restated for the adoption of IFRS.

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

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

*As restated for the adoption of IFRS.

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

*As restated for the adoption of IFRS.

Notes to the preliminary announcement

Note 1

The preliminary announcement is prepared under International Financial Reporting Standards ("IFRS") and IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied.

The statutory accounts for the year to 31 March 2006 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2005 have been delivered to the Registrar of Companies. The auditors' reports on the statutory accounts for these years are unqualified and do not contain any statements under section 237(2) or (3) of the Companies Act 1985. This announcement does not constitute statutory accounts.

Note 2

The final dividend will be payable on 21 July 2006 to holders of shares on the register on 23 June 2006.

Note 3

Copies of the Report and accounts 2006 will be distributed to shareholders on or soon after 26 May 2006.

Ten largest investments[1]

Investment (Business line) (Geography) **Business description** (First invested in)	**Residual cost** (2) **£m**	**Proportion of equity shares held**	**Directors' valuation** (2) **£m**	**Income in the year** (3) **£m**	**Net Assets** (4) **£m**	**Earnings** (4) **£m**
SR Technics Holding (Buyouts) (Switzerland)						
Technical solutions provider for commercial aircraft fleets (2002)						
Equity shares	7	32.2%	70	-		
Loans	30		30	3		
	37		**100**	**3**	**14**	**(1)**
Oval (2040) Ltd (NCP) (Buyouts) (UK)						
Transport management and parking services (2005)						
Equity shares	1	39.9%	1	-		
Loans	95		95	12		
	96		**96**	**12**	**(23)**	**(9)**
Giochi Preziosi Spa (Buyouts) (Italy)						
Retailer and wholesaler of toys (2005)						
Equity shares	63	37.8%	64	-		
	63		**64**	**-**	**77**	**13**
Boxer TV-Access AB (Growth) (Sweden)						
Digital TV distributor (2005)						
Equity shares	58	30.0%	60	-		
	58		**60**	**-**	**14**	**8**
Infrastructure Investors (5) (Growth) (UK)						
Secondary PFI and Infrastructure investment fund (2005)						
Equity shares	-	31.2%	-	-		
Loans	59		59	-		
	59		**59**	**-**	**208**	**23**
Vetco International Ltd (6) (Buyouts) (UK)						
Oilfield equipment manufacturer (2004)						
Equity shares	-	17.7%	53	-		
	-		**53**	**-**	**(67)**	**(49)**
Tato Holdings Ltd (SMI) (UK)						
Manufacturer and sale of specialist chemicals (1989)						
Equity shares	2	25.2%	53	-		
	2		**53**	**-**	**89**	**13**
Coor Service Management AB (Buyouts) (Sweden)						
Facilities management (2004)						
Equity shares	1	37.5%	26	-		
Loans	26		26	2		
	27		**52**	**2**	**2**	**2**
Senoble Holding SAS (Growth) (France)						
Manufacturer of dairy products and chilled desserts (2004)						
Equity shares	9	10.0%	27	-		
Loans	18		19	1		
	27		**46**	**1**	**88**	**18**

Notes

1 The valuation of Vonage Holdings Corp., a US Venture Capital investment made in 2004, has been excluded as the company has commenced an IPO process in the US. If it had been disclosed, the investment would have been among the largest five investments shown above.

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

3 Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2006.

4 Net assets and earnings figures are taken from the most recent audited accounts of the investee business. The figures shown are the total earnings on ordinary activities after tax and the net assets of each business. Because of the varying rights attaching to the classes of shares held by the Group, it could be misleading to attribute a certain proportion of earnings and net assets to the proportion of equity capital held. Negative earnings and net assets are shown in brackets.

5 The investment by 3i is into three Infrastructure Investors' entities, a limited partner in the fund, a general partner in the fund and a management company as well as the loan shown, has a cost of £3,177 for partnership capital. The net assets and earnings figures for this investment are for the LP and are unaudited.

6 The cost of the equity held in Vetco International Ltd is £423,367.