12 May 2005

3i Group plc announces intention to return £500 million of capital to shareholders on back of strong performance

- Total return on opening shareholders' funds of £512 million
- Realisation proceeds of £1.3 billion
- Proposal to return £500 million of capital to shareholders

Preliminary results for year ended 31 March 2005

Total return on opening shareholders' funds	15.9%
Net asset value per share	603p
Final dividend	9.3p
Realised profits on disposal of investments	£260m
New investment	£755m
- Including co-investment funds	£962m
Realisation proceeds	£1.3bn
- Including co-investment funds	£1.7bn

Highlights

- A total return of £512 million representing a return of 15.9% on opening shareholders' funds.
- Realisation proceeds on the sale of assets of £1.3 billion generating realised capital profits of £260 million. Equity realisations were made at an uplift of 40% over opening values.
- Investment in the year of £755 million (£962 million including co-investment funds).
- Full year dividend of 14.6p, up 4.3%.
- Announcement of intention to return £500 million to shareholders through:
  - a special dividend of approximately £250 million and
  - an on-market share buyback programme of approximately £250 million.

Baroness Hogg, Chairman of 3i Group plc, said: "Our last financial year was a year of progress on many fronts. The results for the Company are a good financial performance and strong cash flow, an enhanced competitive position and opportunities to grow value for shareholders in the years ahead. Our very high level of realisations has afforded the opportunity to return £500 million to shareholders, thus improving our capital efficiency."

3i's Chief Executive, Philip Yea, said: "I believe we have made good progress in the acceleration of 3i's development as a truly international private equity firm. Our returns have been such that it makes sense to propose a return of capital to shareholders."

Commenting on the outlook, he added: "Despite the hesitancy apparent in the financial markets I intend to report good progress towards our performance and strategic goals in the year ahead."

Return of capital to shareholders

3i is focused on delivering a strong performance in terms of return on equity. In this context, the Board has carefully assessed 3i's capital base and intends to return £500 million to shareholders. The Board proposes to pay a special dividend of 40.7p per share (approximately £250 million). This dividend is to be linked to a consolidation of shares and, if the consolidation is approved by shareholders, the dividend is expected to be paid in July. The Board also proposes that, subject to shareholder approval, the balance of about £250 million (representing approximately 6% of 3i's issued share capital at 3i's current share price) will be returned through a programme of on-market purchases of 3i shares commencing in July. On the basis of current market conditions, it is likely that these purchases will be executed at prices which exceed 3i's latest published net asset value per share.

It is intended that shareholder approval for these proposals will be sought at an extraordinary general meeting to take place immediately following the AGM on 6 July. 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 2005, 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's business, balance sheet and board have all developed considerably this year. The results for the Company are a good financial performance and strong cash flow, an enhanced competitive position and opportunities to grow value for shareholders in the years ahead. In summary, a year of progress on many fronts.

Our very high level of realisations has afforded the opportunity to return £500 million to our shareholders, thus improving our capital efficiency, without compromising our ability to grow.

Each of our Buyout, Growth Capital and Venture Capital businesses has improved its competitive position in the year. Our strategy of developing the business internationally has progressed well and some 48% of 3i's portfolio value is now outside the UK.

A total return of £512 million for the 12 months to 31 March 2005 represents a 15.9% return on opening shareholders' funds, marginally better than both the FTSE All-Share (15.6%) and the FTSE 100 (15.4%) total return indices in the same period, and ahead of 3i's share price.

The Board is recommending a final ordinary dividend of 9.3p, making a total ordinary dividend of 14.6p, an increase of 4.3% from 14.0p last year.

Looking forward, the Board intends to achieve the return of an additional £500 million to shareholders through a combination of special dividend and share repurchases. The Board therefore proposes to pay a special dividend of 40.7p per share (approximately £250 million) as soon as practicable after the Annual General Meeting on 6 July. The Board also proposes that the balance of about £250 million be returned to shareholders through a programme of on-market share buybacks beginning in July. Resolutions relating to both the special dividend and buyback proposals will be put to shareholders at an Extraordinary General Meeting we plan to hold immediately following the Annual General Meeting.

In my interim report to you I noted that the appointment of Philip Yea as Chief Executive in July 2004 was widely welcomed and that Philip had made a number of organisational changes in the autumn of 2004. These changes have positioned the business for growth, enhancing the linkage between our business lines and geographic markets and ensuring that 3i continues to attract, retain and develop the best talent.

Simon Ball joined 3i in February and succeeded Michael Queen as Finance Director on 1 April 2005, the date when Michael formally became responsible for 3i's Growth Capital business. Rod Perry, who has done a tremendous job with our Venture Capital business since he became responsible for it in 2001, retires from the Board at our Annual General Meeting in July at the age of 60. He will be succeeded by Jo Taylor, who will join our Executive Committee in July. Rod's Human Resources responsibilities have been taken on by Denise Collis, who joined 3i and the Executive Committee in November.

I was also delighted to welcome Sir Robert Smith and Dr Peter Mihatsch as non-executive Directors to the Board in September 2004. Sir Robert brings a wealth of experience from the City and industry and has substantial private equity experience. Peter brings an extensive knowledge of German business as well as insights gained from growing a major international telecommunications business. 3i now has non-executives from the US, France and Germany, all countries where we have significant interests.

As ever, the macroeconomic prospects are complicated by global imbalances and shifts in the pattern of growth. 3i is, however, well placed to take advantage of these. We are already securing access to growth capital opportunities in India and China and our Venture Capital business is able to exploit its network in the US, Asia and Europe. Meanwhile, the pace of restructuring in Europe is accelerating.

A year of such good progress at 3i is the result of a team effort and I would like to pay tribute to three groups of people in particular. First, our teams around the world, who have worked with skill and determination to deliver these results. Second, the managers of our portfolio companies, who are the ultimate drivers of 3i's value, and third, the many people who work with 3i around the world to find, invest and grow businesses with us.

Baroness Hogg
Chairman
11 May 2005

Chief Executive's statement

My role as Chief Executive is to deliver performance from the present business while building for the future.

I am pleased to report a strong set of results and good progress in the acceleration of 3i's development as a truly international private equity firm. Total return for the year was 15.9% on restated opening shareholders' funds. Both Buyouts and Growth Capital performed well, with gross portfolio returns of 22% and 24% respectively, and Venture Capital showed an improved performance with a gross return for the year of 11%.

Although, during the year, investment conditions were competitive for Buyouts, with increased funds flowing into European private equity and the high availability of debt, our teams invested £532 million, of which £338 million was from 3i's own resources. Growth Capital had a slower year in terms of the amount of investment (£263 million) but the pipeline going forward is encouraging. Our Venture Capital business continues to be selective and disciplined in its investment approach and invested £143 million.

Realisation proceeds were £1.3 billion and these were generated at good uplifts to carrying value. The portfolio performed well and health remains sound, reflecting both improved investment processes and the relatively benign economic backdrop.

To assist understanding of our current business model, we have decided to report separately the returns from our SMI portfolio which, in fact, has been run by a dedicated team since 2001. This team continues to make excellent progress in realising value from this part of the portfolio.

At the time of our interims in November, I spoke of the opportunities I saw for the Group to continue to improve our returns but also to increase the level of our investment. In view of the opportunities within our Growth Capital business to invest at a larger deal size, which quite often involves investing in companies with cross-border ambitions, we have decided to operate this business line on a more integrated international basis.

We are accelerating the development of our Asian business by opening an office in Shanghai and starting the recruitment of a high quality team to develop a business in India. We are also actively building relationships to access the market for infrastructure investment in the UK and the rest of Europe. These steps are the prelude to achieving a higher level of investment over the next few years without diluting our returns.

In his new role as Head of Group Markets, Chris Rowlands has taken a number of important steps to improve the agility with which we bring our resources to bear in the market.

Our central sector group of industrialists has been strengthened to support the greater emphasis being given to sector specialisation in the origination of investments. We have also taken specific opportunities to add to the quality of our existing teams by bringing in fresh, relevant experience from outside, including Managing Directors for our German speaking and Indian businesses and our Group Marketing Director.

The creation of partnership style structures within each of our business lines has been supported in recent years by the introduction of carried interest schemes. These reward our teams for successful realisations. The continued success of our business line model within our international network is critically dependent upon the quality of our people and how well we deliver partnership models across the Group as a whole. Denise Collis, who joined our Executive Committee as Human Resources Director in November, is having a major impact on how we further improve our employment proposition and progress the development of our people to deliver a true culture of partnership across the Group as a whole.

As we develop our resources in new markets, we anticipate a modest increase in our cost base but, over the medium term, would expect our costs as a proportion of our gross returns to decline.

Following Michael Queen's move from Finance Director to head up our Growth Capital business, and the appointment of Simon Ball as his successor, the announcement in January that Jo Taylor would succeed Rod Perry in heading our Venture business has completed the series of changes required to implement our immediate plans. Rod has made a major contribution to the Group in this and other roles and I have asked him to continue his association with us by heading up an international advisory board for our Venture business.

At the interims, we took the step of making public the gross cash to cash returns that we are targeting for each of our business lines, as well as the volatilities that we expect to experience over given time periods. At the mid-point of these ranges and with an appropriate level of leverage to our equity base, we would expect to achieve an average return on equity of 20%.

The good returns we are achieving, and particularly the high level of realisation proceeds we have generated over the past two years, have given rise to a higher level of financial resources than we can profitably reinvest in the near term. By reference to the level of gearing we believe is appropriate for the business and, having reviewed our medium-term projections of cash flows, we have decided to take immediate steps to return capital to shareholders.

Although we intend to increase the amounts we invest, particularly through accelerating investment in growth capital opportunities and expanding our business lines and geographic footprint, we are committed to maintaining financial efficiency by returning cash when it is surplus to our investment needs.

Our strategic opportunities are clear and much change is under way to accelerate their delivery. At the same time, our teams are maintaining their focus on continuing to deliver high quality investment opportunities. Despite the hesitancy apparent in the financial markets, I intend to report further good progress towards our performance and strategic goals in the year ahead.

Philip Yea
Chief Executive
11 May 2005

Operating and financial review

This review includes a description of 3i's business and strategy and comments on 3i's performance during the year in the context of the economic and market environment and other influences. It also discusses 3i's financial position, including changes to its capital structure, and comments on the main risks inherent in 3i's business and the framework used to manage them.

3i's business and strategy

3i's business

The focus of 3i's business continues to be to invest in buyouts, growth capital and venture capital. Buyouts represent 36% of our portfolio by value at 31 March 2005, with Growth Capital at 29% and Venture Capital at 17%. Geographically, most of our investment is in businesses based in Europe, although 3i does have growing investment operations in the US and in Asia.

Buyouts

This business line invests in European mid-market buyout transactions with a value up to €1 billion and targets between 15 and 25 transactions per year. These investments typically involve 3i together with co-investment funds managed by 3i holding the majority of the equity of a portfolio company.

The vendors of businesses acquired through a buyout are typically large corporates disposing of non-core activities, private groups with succession issues or, in the case of a secondary buyout, other private equity investors.

3i targets the mid-market because that is where we believe we can create the most value. There is also less competition for transactions in this market than for larger deals and price is less likely to be the sole or key criterion in "winning the deal". The nature and size of businesses in this market are such that we are more able to add value through strategic, operational and management input; and, in this segment, the underlying businesses will generally have significant growth potential and be attractive acquisition targets for a number of strategic purchasers. We anticipate growing this business broadly in line with the European mid-market.

Growth Capital

3i's Growth Capital business line targets investments of between €10 million and €100 million, across a broad range of sectors, business sizes and funding needs, investing in 20 to 30 transactions per year. These investments typically involve 3i acquiring minority stakes in substantial 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 all shareholders.

3i's Growth Capital business is primarily focused on the European and Asian markets where we see excellent opportunities to grow investment by around 15% per annum.

Success in Growth Capital is increasingly driven by sector-focused marketing 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, gives 3i significant competitive advantage.

In addition, because 3i's funding, unlike that of most of the private equity industry, is not constrained by being fixed-life or closed-end in nature, we are able to be more flexible regarding the investment holding period.

During the year, we commenced the recruitment of a team to develop a growth capital business in India, and announced our intention to open an office in Shanghai. In addition, we have also made commitments to invest in a central European growth capital fund and a Chinese growth capital fund. These investments will increase our understanding and capabilities in these developing markets.

3i will continue to target opportunities to invest in infrastructure, a segment of the market where we have historically made a number of successful investments.

Also included within this business line is our investment activity in smaller buyouts in Europe and Asia. These transactions typically have a value of less than €25 million. This activity is managed as part of Growth Capital as it generally involves 3i and its co-investment funds together taking only minority equity stakes.

The financial analyses provided in this review, of returns, amount invested and realisation proceeds by business line, include smaller buyouts within Growth Capital. This represents a change from the basis used in prior years where they were included within Buyouts. For ease of comparison, the 2004 figures have been restated on this new basis.

Venture Capital

3i's Venture Capital business is targeted at four key sub-sectors – healthcare, communications, software and ESAT (Electronics, Semiconductors and Advanced Technologies). The main geographic focus is Europe and the US, though the business also makes venture investments in Asia. As venture businesses compete globally, each investment opportunity is reviewed by reference to the relevant global sub-sector's competitive landscape.

Investment in venture capital takes the form of participation in a series of "funding rounds" and we therefore separate out "first investments" (those in businesses where 3i is not already invested) and "further investments". 3i typically invests between €2 million and €10 million in each new opportunity and, depending on circumstances and market conditions, we expect to invest between £150 million and £200 million per annum in venture capital.

3i's strategy

Consistent with our vision, we will continue to build our business internationally in markets where we believe we can generate market-beating returns. This will include extending business lines and building the capabilities necessary to deliver our targeted returns.

Integral to 3i's strategy is the ability to use our network to generate market-beating returns at each stage of the investment lifecycle – origination of the investment opportunity, developing and validating the business case, structuring and making the investment, implementing the operational plan for the business, and exit.

The main elements of our network are as follows:

Business line teams

Our specialist teams of investment executives in each of our Buyout, Growth Capital and Venture Capital business lines. 3i's scale and structure also allow us to utilise specialist skills in a number of other areas, including portfolio management, restructuring and turnarounds, and exits and initial public offerings ("IPOs") of companies from 3i's portfolio.

Sector specialisation

Our sector teams and the relationships that they have around the world provide market access, insight to investment judgment and the capability to add value. These sector teams are drawn from our investment and portfolio management executives and 3i's Sector Group, which comprises around 20 experienced senior industry specialists.

Local presence

The relationships that 3i has across the world with entrepreneurs, business leaders, corporates, universities, research organisations and intermediaries.

Relationships with corporates

Another benefit of 3i's scale, international reach and membership of the FTSE 100, is that we have developed valuable relationships with many of the leading corporates in each of the geographies and sectors in which we operate. Furthermore, 3i's ability to make effective business introductions across a range of geographies and sectors is increasingly a critical factor in our ability to "win deals" and provides 3i with a distinctive source of value creation.

Boards and management teams
The “People Programmes” 3i runs for chairmen, chief executives, chief financial officers and independent directors provide an excellent resource for building and strengthening boards and operational management; and are also a strong source of both investment opportunities and due diligence capability.

Sharing knowledge and relationships
Having invested in building such a significant network, it is imperative that 3i maximises its value through having the systems, processes and, most importantly, culture, to enable this to happen. An important tool is the 3i portal. This web-based knowledge system provides everyone at 3i with instant access to the combined knowledge and relationships of the Group.

Organisation and office network
A number of changes to the management and organisation of our investment business were announced during the year. Chris Rowlands was appointed as Head of Group Markets, with responsibility for further developing the benefits of 3i’s geographic network and our sector and business relationships. Michael Queen was appointed to succeed Chris Rowlands as Head of Growth Capital. These changes took effect from 1 April 2005. In addition, we announced that Rod Perry would be retiring as Head of Venture Capital in July and would be succeeded by Jo Taylor, who has run 3i’s UK Venture Capital team since 1999. Jonathan Russell continues to lead our Buyouts business line.

Within each business line, a panel of 3i’s most experienced investors ensures rigorous application of our investment processes. These panels also seek to ensure, on a case-by-case basis, that we assemble “the best team for the job” from our regional, sector and business line specialists.

The investment and divestment approval functions for larger transactions are carried out by two Investment Committees, addressing technology and non-technology investments respectively. The membership of these Investment Committees is drawn from 3i’s Executive Committee.

3i’s SMI initiative, which was established in 2001, continues to be successful in generating returns from some of the older and lower-growth investments. At 31 March 2005, £762 million of value (18% of 3i’s total portfolio) and 807 investments (54% by number of 3i’s total portfolio) were managed by the SMI team. It is our objective to continue to realise the SMI portfolio over the medium term.

As noted above, we have started the recruitment of a team for India and intend to open an office in Shanghai to complement our team based in Hong Kong. During the year, we closed a number of our smaller offices, in Padua, Nantes and Vienna. As of 31 March, we had a total of 28 offices (24 across Europe and two each in the US and Asia).

Since 31 March 2005, with a view to focusing our new business activity in the UK and Germany in fewer locations, we have communicated the decision to close our offices in central Birmingham, Reading and Düsseldorf. Following these closures, we will have eight offices in the UK, of which four (Aberdeen, Cambridge, London and Manchester) will focus on new business, with the other four (Birmingham – Trinity Park, Bristol, Glasgow and Leeds) being solely focused on portfolio management.

Operating review

Macroeconomic and market conditions
Overall, the macroeconomic environment in the geographies where 3i operates remained supportive during the year, though conditions within the different regions and sectors in which our portfolio companies operate were variable. Broadly, the year was one of economic growth with low levels of inflation and interest rates, which helped to keep business sentiment and consumer confidence positive throughout. In currency terms, sterling strengthened slightly against the US dollar and a number of Asian currencies, and weakened slightly against the euro, giving rise to a modest negative impact on the competitive positions of some of our European and UK portfolio companies.

Stock market indices rose over the year as a whole, after a relatively subdued first half, though technology indices and markets did less well, experiencing either flat or moderately negative performances. The strong overall growth reflects improving confidence in underlying economic growth and prospects for corporate earnings. Mergers and acquisitions ("M&A") volumes, a key driver of activity in our Buyouts business, remained relatively subdued, both in Europe and globally, as corporates remained cautious despite improved balance sheets.

The private equity markets in which 3i operates experienced increased levels of activity. Market statistics for calendar year 2004 show that total private equity investment in Europe increased by 18% compared with 2003, with buyout investment up by 15%, growth capital up by 61% (from a particularly low level in 2003) and venture capital up by 16%. The level of investment in 2004 represented the second highest year on record after 2000 (the height of the "technology bubble").

Market statistics for the venture capital market in the US show that investment in 2004 was up 11% on 2003; and statistics for the same period for Asia show overall private equity investment also up 11% on 2003.

Conditions for realisations improved, with the return of corporate buyers to the market and the IPO window reopening to some extent. Market statistics for Europe show a 53% rise in the number of divestments in 2004 compared with 2003. Secondary buyouts (sales of private equity-backed businesses to other private equity-backed teams or businesses) have become an increasing feature of the marketplace, providing a significant alternative realisation route. In 2004 they accounted for 28% of total buyout investment in Europe. In addition, 2004 saw increasing amounts of debt available, which led to an increase in refinancing activity across the industry.

The European mid-market for buyouts saw increased levels of competition during the year, driven by a combination of the high availability of debt at aggressive prices and the large amounts of cash in the hands of private equity investors. Rising leverage ratios enabled private equity buyers to outbid trade buyers.

Within growth capital, the level of competition remained at much lower levels than for buyouts, with relatively few private equity players pursuing these transactions. The market itself is much less well-defined and understood than buyouts, but we have noted a growing acceptance in some of the less mature private equity markets in Europe of the role of external equity funding in enabling businesses to grow. We continue to believe that the use of private equity to facilitate cross-border expansion within the European market is a key driver of investment opportunity.

For venture capital, 2004 saw a number of positives, including signs of increasing technology expenditure by corporates, greater willingness on the part of the stock markets to absorb venture-backed companies, especially within the biotechnology sector, and the return of trade buyers in greater numbers, particularly from the US. The fundraising environment in Europe remained slow and difficult throughout 2004, influencing the choice of syndicate partners for 3i.

Total return

3i achieved a total return of £512 million for the financial year, which equates to 15.9% on restated opening shareholders' funds. This compares with returns on the FTSE All-Share, FTSE 100 and FTSE SmallCap (ex investment companies) total return indices of 15.6%, 15.4% and 11.4% respectively.

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

Our Buyouts and Growth Capital business lines delivered strong returns for the second successive year, and Venture Capital continues to demonstrate improved performance.

We have decided this year to disclose separately the returns, amount invested and realisation proceeds of the SMI portfolio, in order to provide greater visibility on trends in our three ongoing business lines. In prior years, the SMI figures were included within those of the business line to which individual assets previously related. For ease of comparison, we have adjusted the 2004 figures to show them on the same basis as those for 2005.

For Buyouts, the gross return of 22% was underpinned by a high level of profitable realisations and the continuing strong performance of the portfolio. The Growth Capital business line achieved a 24% gross return, mainly as a result of strong realisation profits and good "first-time uplifts" on a number of recent investments. Venture Capital made a gross return of 11%, reflecting a good level of realised profits and a number of valuation increases arising as a result of portfolio companies raising funds from new investors at increased values. Across each of the business lines, we have seen the portfolio's health improving and the level of provisions falling.

The gross portfolio return from the SMI portfolio was £70 million (7%), which comprises £86 million of income receipts, realised profits of £2 million and a net unrealised valuation reduction of £18 million.

Investment
3i invested a total of £755 million (£962 million including investment on behalf of co-investment funds), which is marginally lower than the prior year and lower than our expected run-rate over the cycle. This reflects two main factors. First, within Buyouts, as noted previously, competition has been intense and price levels high, and we have sought to remain selective and disciplined in our approach. Second, in Growth Capital, as we have moved to a larger average deal size, investment levels are less evenly spread.

Buyouts represented 45% of total investment, Growth Capital 35% and Venture Capital 19%. Of the amount invested in Venture Capital, 59% was further investment into existing portfolio companies.

Continental European investment represented 45% of the total invested, the US 7% and Asia 4%. The share of investment represented by continental Europe reflects our focus on the relatively less mature private equity markets there compared with those in the UK. 3i's ability to access and execute deals across Europe through our regional presence and ability to resource transactions on a pan-European basis has also driven investment growth.

Realisations
3i generated realisation proceeds of £1,302 million (2004: £923 million) during the financial year, reflecting a profit over 31 March 2004 values of £260 million (25%), compared with £228 million (33%) in the prior year. The uplift over 31 March 2004 values on realisations of equity investments was 40% (2004: 58%). The reduced uplift percentage relative to last year is largely due to the high level of realisations achieved in the earlier months of the year. These assets were realised for amounts similar to their carrying value at 31 March 2004 as they were then valued on an imminent sale basis.

Realised profits are stated net of write-offs, which amounted to £37 million (2004: £50 million). Overall, 24% of the opening portfolio (by value) was realised during the year (2004: 18%), including sales and redemptions of loans and fixed income shares.

Realisations were strong across all business lines, but most significantly within Buyouts, where advantage was taken of the high level of secondary buyout activity. Geographically, the UK was particularly active, generating 69% of total proceeds.

Although most of our realisation proceeds continue to come from sales of portfolio businesses to trade and financial purchasers, 12 portfolio companies achieved IPOs during the year on six different markets. The IPOs of Pinewood Shepperton, the film and TV studios business, in May 2004 and E2V Holdings, a supplier of switching, sensing and imaging components, in June 2004 were notable in providing 3i with a 100% cash realisation on IPO.

Significant individual contributions to our realisation proceeds for the year were Yellow Brick Road, the telephone directories group, where we achieved interim realisation proceeds of £61 million through a merger and refinancing completed in April 2004; and the sale in October 2004 of Westminster Health Care, the care homes operator, which generated realisation proceeds of £155 million at an uplift of £97 million over its 31 March 2004 valuation.

As noted in the market commentary above, sales of businesses to financial purchasers, through secondary buyouts, were a feature of the market during the year. Realisation proceeds of £182 million arose through such sales of portfolio businesses. In addition, conditions were favourable for refinancing businesses and we were able to generate realisation proceeds of over £100 million through refinancings, with the merger and refinancing of Yellow Brick Road being the prime example.

Sales of quoted equity benefited from the general rise in equity markets and a more active realisation strategy by 3i, with proceeds of £134 million and a profit of £28 million (26%) over 31 March 2004 valuations.

Unrealised value movement
The unrealised profit on the revaluation of investments was £270 million (2004: £336 million).

The weighted average earnings multiple applied to investments valued on an earnings basis was 12.0 at both the end and the start of the year. However, for those investments valued on an earnings basis at both dates, the weighted average earnings multiple rose from 11.7 to 12.3 over the year, giving rise to a value increase of £40 million (2004: £287 million). In the prior year, largely because of the general rise in equity markets, the weighted average earnings multiple increased from 8.1 to 12.0 over the year.

The aggregate attributable earnings of investments valued on an earnings basis at both the start and the end of the year increased by approximately 3%, giving rise to a £20 million value increase. A number of strongly-performing Buyouts and Growth Capital assets contributed significantly to this increase. It should be noted that the value movement relating to first-time uplifts includes £74 million which is due to earnings growth and that the “other movements on unquoted investments” item includes a net £3 million valuation increase in respect of investments that moved between a net assets and an earnings basis of valuation. The net value movement due to earnings growth is therefore a £97 million increase.

The net valuation impact arising on investments being valued on a basis other than cost for the first time (“first-time uplifts”) was £149 million (2004: £238 million). This is a reflection of the quality of investments made in recent years and also of the general increase in price levels over the period.

Provisions against the carrying value of investments in businesses which may fail totalled £66 million (2004: £143 million), representing 1.5% of the opening portfolio value and a significant improvement over levels in recent periods.

There was a net £36 million valuation increase (2004: £70 million decrease) as a result of investee companies raising funds from new investors at increased values (£56 million), net of value reductions (£20 million) relating to the application of 3i’s downround valuation methodology and fair value adjustments to our Venture Capital portfolio.

Other movements on unquoted investments include valuation increases totalling £101 million on investments being revalued on an imminent sale basis. This includes £52 million in respect of the announced sale of Travelex, the foreign currency services business, which is due to complete in the summer.

The quoted investments held at the end of the year increased in value by an aggregate £12 million over the year, largely reflecting the rise in equity markets.

Carried interest and investment performance plans
Market practice in the private equity industry is to offer investment staff the opportunity to participate in returns from successful investments through “carried interest” or similar arrangements. The charge in the year of £66 million (2004: £40 million) reflects both profitable realisations and strong value growth on a number of recent investments.

Amounts payable under such arrangements on the successful realisation of investments in the year totalled £30 million (2004: £8 million). A further £36 million (2004: £32 million) has been accrued in respect of amounts that would be payable under such arrangements if assets were ultimately realised at their 31 March 2005 carrying values.

Income and costs

Total portfolio income was £232 million (2004: £199 million). The increase when compared with the prior year is due mainly to the receipt of several large special dividends arising on the sale of investments, an increase in the level of interest income and a rise in deal-related fees (net of abort costs).

Management expenses of £172 million (2004: £163 million) were 6% higher than in the prior year, during a period in which our staff headcount fell slightly, from 771 at the start of the year to 740 at the end. The increase reflects the costs associated with "upskilling" our investment teams and the costs associated with changes in senior management.

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

The portfolio
The number of investments in the portfolio fell from 1,878 (of which SMI was 1,079) at the start of the year to 1,502 (of which SMI was 807) at the end, reflecting the high level of realisations. We would expect this trend to continue over the medium term, as a result of our SMI initiative and partly also of our strategy of making a smaller number of higher value investments than in the past.

At the year end, 36% of the portfolio was represented by Buyouts, 29% by Growth Capital investments and 17% by Venture Capital investments. Geographically, 52% was in the UK, 39% in continental Europe, 7% in the US and 2% in Asia.

Although the number of investments in 3i's portfolio has reduced, 3i still has, in contrast to many others in the private equity industry, relatively low exposure to individual company risk. The top 10 investments represented 15% of portfolio value at the year end and the top 50 investments 40%.

Fund management activities
Consistent with our announcement last July, we have ceased managing quoted funds and our fund management activities now comprise solely the management of private equity funds.

These funds are primarily co-invested alongside 3i's own capital when financing buyouts, enabling an investment to be made without 3i holding a majority interest. During the year, 3i earned fee income of £27 million (2004: £31 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of third-party funds under management. At 31 March 2005, the invested portfolio managed on behalf of private equity fund investors was valued at £1,260 million (2004: £1,324 million), excluding undrawn commitments. The final closing of Eurofund IV, our latest fund targeted at pan-European mid-market buyouts, took place in June 2004 with 25 investors. We subsequently placed further commitments with an additional 15 investors, taking total third party commitments to €1.1 billion. At 31 March 2005, Eurofund IV was 44% committed, with investments in 30 companies.

As noted above, we have ceased managing quoted funds and have closed our 3i Asset Management operation. Fees earned from quoted fund management amounted to £3 million (2004: £4 million) and total third party quoted funds under management at 31 March 2005 were £nil (2004: £600 million). Net costs incurred in closing the 3i Asset Management operation were not material.

Accounting policies and valuation

Valuation
The valuation guidelines of the British Venture Capital Association were superseded with effect from 1 January 2005 by "International private equity and venture capital valuation guidelines", issued and endorsed by the BVCA, the European Private Equity and Venture Capital Association and the French national association, AFIC. These new guidelines effectively incorporate, without substantial change, the superseded guidelines of the BVCA and have not resulted in any changes to 3i's valuation methodology.

Changes to accounting policies
Financial Reporting Standard 17 "Retirement Benefits" was implemented in full for the first time during the year. Additionally, the recommendations of Urgent Issues Task Force Abstract 38

"Accounting for ESOP Trusts" were implemented and the presentation of comparatives changed accordingly.

Introduction of International Financial Reporting Standards ("IFRS")
Work to comply with the requirements of IFRS in the year to 31 March 2006 is advancing to plan. Differences have been identified, revised accounting policies are being finalised and systems changes have been implemented. We are confident that 3i will be able to meet requirements for financial reporting during the year to 31 March 2006. The first financial statements prepared on an IFRS basis will be those for the six months to 30 September 2005.

Financial review

Cash flows
The key cash flows during the year were the aggregate cash outflow of £719 million (2004: £756 million) in respect of investment and cash inflows totalling £1,287 million (2004: £913 million) in respect of proceeds received on realising investments. Net cash inflow for the year was £433 million (2004: £45 million), reducing net borrowings at the year end to £526 million (2004: £936 million). The level of gearing fell from 28% at 31 March 2004 to 14% at 31 March 2005.

Capital structure
3i's capital structure comprises a combination of shareholders' funds, long-term borrowing, short-term borrowing and liquid treasury assets and cash. There were no significant changes in 3i's capital structure during the year, other than the growth in shareholders' funds and the strong cash inflow.

Long-term borrowing at 31 March 2005 is £1,623 million and is repayable as follows: £154 million between one and two years, £818 million between two and five years and £651 million after five years. In addition, at the year end, 3i had committed and undrawn borrowing facilities amounting to £579 million and cash and other liquid assets totalling £1,199 million. We are confident we have in place adequate funding for foreseeable investment needs.

3i Group plc currently has credit ratings with Moody's and Standard & Poor's of Aa3/stable and A+/stable respectively.

Proposal to return capital to shareholders
As indicated in the Chairman's statement, it is intended that £500 million will be returned to shareholders through a combination of a special dividend and a programme of on-market share buy-backs.

The pro-forma level of gearing at 31 March 2005, based on flowing through into net borrowings the impact of this £500 million proposed return of capital and the proposed final dividend of £56 million, is 34%. This represents a more efficient level of balance sheet leverage for our shareholders, whilst maintaining the funding we require to achieve our medium-term investment plans.

Risk management

Introduction
3i has a comprehensive framework to manage the risks that are inherent in its business. This framework includes a risk committee whose purpose is to monitor the identification, assessment and management of key risks across the business. The main risks comprise economic risk, treasury and funding risk, investment risk and operational risk.

Economic risk
3i invests mainly in European companies and continues to develop its operations in the US and Asia. However, the majority of the portfolio by value (52%) is still in UK companies and there is an element of exposure to the UK economic cycle. To mitigate this, 3i has invested in different sectors of the UK economy with different economic cycles. In addition, an increasing proportion of assets is invested in continental Europe, in the US and in Asia, which may be subject to different economic cycles.

Treasury and funding risk
The overall funding objective continues to be that each category of investment asset is broadly matched with liabilities and shareholders' funds, with corresponding characteristics in terms of risk and maturity, and that funding needs are met ahead of planned investment. This objective continued to be met during the year ended 31 March 2005.

All assets and liabilities are held for non-trading purposes and, as a result, 3i does not have a trading book. 3i does not trade in derivatives and does not enter into transactions of either a speculative nature or unrelated to 3i's investment activities. Derivatives are used to manage the risks arising from 3i's investment activities.

The main funding risks faced by 3i are interest rate risk and exchange rate risk. The level of these risks is mitigated by the overall funding objective and the Board regularly reviews and approves policies on the approach to each of these risks.

3i is currently in the process of implementing a new policy for foreign exchange risk management. The policy is designed to eliminate, as far as possible, the exposure of assets denominated in foreign currencies to movements in the exchange rates between sterling and the respective currencies. Foreign currency borrowings and swaps will be used to effect the hedges.

Day-to-day management of treasury activities is delegated to executive Directors and the Group Treasurer. Regular reports on 3i's funding position have been considered during the year by the Board. There has been no change during the year or since the year end to the major funding risks faced by 3i, or to 3i's approach to such risks.

Investment risk
This includes investing in companies that may not perform as expected, being over exposed to one sector of the economy and the portfolio valuation being partly based on stock market valuations.

Investment levels are set, allocated and monitored by business line and geography. Within this framework, 3i invests in all sectors of the economy, except those, such as property, where the opportunity to invest in private equity-backed businesses meeting 3i's investment criteria is limited. Management periodically reviews the portfolio, which is well diversified by industry sector, to ensure that there is no undue exposure to any one sector.

3i's investment criteria focus on management ability and market potential. Investment appraisal and due diligence is undertaken in a rigorous manner by drawing on our international network and experts in individual industry sectors. In general, proposed investments over £5 million are presented to 3i's Investment Committee or Technology Investment Committee, which are committees of senior management including executive Directors.

The valuation of a large proportion of 3i's equity portfolio is based on stock market valuations for the relevant industry sector. Quoted investments are valued using the closing mid-market price at the balance sheet date. 39% of the unquoted portfolio is valued using stock market earnings multiples for the relevant industry sector discounted for non marketability. Accordingly, stock market valuations for individual sectors are an important factor in determining the valuation of 3i's portfolio and the total return.

There are regular reviews of holdings in quoted companies and exposure to individual sectors in order to monitor the level of risk and mitigate exposure where appropriate. In particular, the level of future funding of technology companies is kept under review. However, it is not possible to protect against the risks of a downturn in stock markets generally or in any specific sector. Accordingly, the valuation of 3i's portfolio and opportunities for realisation depend on stock market conditions and the buoyancy of the wider mergers and acquisitions market.

Operational risk
This includes operational events such as human resources risks, legal and regulatory risks, IT systems problems, business disruption and shortcomings in internal controls.

Line management at all levels is responsible for identifying, assessing, controlling and reporting operational risks. This is supported by a framework of core values, standards and controls, a code of business conduct and delegated authorities.

The ability to recruit, develop and retain capable people is of fundamental importance to achieving 3i's strategic objectives. We operate in a competitive industry and aim to remunerate our staff in line with market practice and to provide superior development opportunities.

A group-wide business continuity strategy is in place. This strategy has been assessed against a detailed business impact analysis and independently benchmarked against best practice.

Total return

	2005	2004
		(as restated)*
	£m	£m
Realised profits on disposal of investments	**260**	228
Unrealised profits on revaluation of investments	**270**	336
Portfolio income	**232**	199
Gross portfolio return	**762**	763
Fund management fee income	**30**	35
Total income	**792**	798
Carried interest and investment performance plans	**(66)**	(40)
Administrative expenses	**(172)**	(163)
Net portfolio return	**554**	595
Net interest payable	**(36)**	(60)
Other	**(6)**	(11)
Total return	**512**	524

Return by business line (£m)

	Buyouts		**Growth Capital**		**Venture Capital**		**SMI**		**Total**	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004 (as restated)
Gross portfolio return	**332**	291	**286**	258	**74**	32	**70**	182	**762**	763
Return as % of opening portfolio	**22%**	25%	**24%**	23%	**11%**	5%	**7%**	17%	**18%**	19%
Net portfolio return									**554**	595
Return as % of opening portfolio									**13%**	15%
Total return									**512**	524
Total return as % of opening shareholders' funds									**15.9%**	18.8%

Consolidated statement of total return
for the year to 31 March 2005

	Revenue 2005 £m	**Capital 2005 £m**	**Total 2005 £m**	Revenue 2004 (as restated)* £m	Capital 2004 (as restated)* £m	Total 2004 (as restated)* £m
Capital profits						
Realised profits on disposal of investments		**260**	**260**		228	228
Unrealised profits on revaluation of investments		**270**	**270**		336	336
		530	**530**		564	564
Carried interest and investment performance plans		**(66)**	**(66)**		(40)	(40)
		464	**464**		524	524
Total operating income before interest payable	**290**	**18**	**308**	262	5	267
Interest payable	**(57)**	**(25)**	**(82)**	(51)	(42)	(93)
	233	**457**	**690**	211	487	698
Administrative expenses	**(78)**	**(94)**	**(172)**	(72)	(91)	(163)
Other finance income/ (costs) on pension plan	**1**	**-**	**1**	(3)	-	(3)
Actuarial (losses) on pension plan	**-**	**(1)**	**(1)**	-	(4)	(4)
Return before tax and currency translation adjustment	**156**	**362**	**518**	136	392	528
Tax	**(22)**	**19**	**(3)**	(29)	25	(4)
Return for the year before currency translation adjustment	**134**	**381**	**515**	107	417	524
Currency translation adjustment	**(1)**	**(2)**	**(3)**	24	(24)	-
Total return	**133**	**379**	**512**	131	393	524
Total return per share						
Basic (pence)	**22.1p**	**62.8p**	**84.9p**	21.8p	65.2p	87.0p
Diluted (pence)	**21.3p**	**60.7p**	**82.0p**	21.2p	63.8p	85.0p

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1.

The cumulative effects of the prior year adjustments are explained in note 4.

Reconciliation of movement in shareholders' funds

	2005 £m	2004 (as restated)* £m
Opening balance	**3,395**	2,936
Prior year adjustment	**(165)**	(147)
Opening balance as restated	**3,230**	2,789
Revenue return	**133**	131
Capital return	**379**	393
Total return	**512**	524
Dividends	**(88)**	(84)
Proceeds of issues of shares	**5**	12
Own shares	**(22)**	(11)
Movement in the year	**407**	441
Closing balance	**3,637**	3,230

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1.

Consolidated revenue statement

for the year to 31 March 2005

	2005 £m	2004 (as restated)* £m
Interest receivable		
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments		
Interest receivable on loan investments	**94**	84
Fixed rate dividends	**7**	8
	101	92
Other interest receivable and similar income	**46**	33
	147	125
Interest payable	**(57)**	(51)
Net interest income	**90**	74
Dividend income from equity shares	**104**	94
Share of net (losses) of joint ventures	**-**	(1)
Fees receivable	**39**	43
Other operating income	**-**	1
Total operating income	**233**	211
Administrative expenses and depreciation	**(78)**	(72)
Other finance income/(costs) on pension plan	**1**	(3)
Profit on ordinary activities before tax	**156**	136
Tax on profit on ordinary activities	**(22)**	(29)
Profit for the year	**134**	107
Dividends		
Interim (5.3p per share paid, 2004: 5.1p per share paid)	**(32)**	(31)
Final (9.3p per share proposed, 2004: 8.9p per share paid)	**(56)**	(53)
Profit retained for the year	**46**	23

Earnings per share		
Basic (pence)	**22.2p**	17.8p
Diluted (pence)	**21.4p**	17.3p

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1.

There is no material difference between the reported revenue and the revenue on an unmodified historical cost basis.

Consolidated balance sheet
as at 31 March 2005

Assets	2005 £m	2005 £m	2004 (as restated)* £m	2004 (as restated)* £m
Treasury bills and other eligible bills		**1**		1
Loans and advances to banks		**1,019**		534
Debt securities held for treasury purposes		**179**		284
Debt securities and other fixed income securities held as financial fixed asset investments				
Loan investments	**1,293**		1,312	
Fixed income shares	**107**		150	
	1,400		1,462	
Equity shares				
Listed	**179**		225	
Unlisted	**2,722**		2,639	
	2,901		2,864	
		4,301		4,326
Interests in joint ventures				
Share of gross assets	**48**		80	
Share of gross liabilities	**(2)**		(53)	
		46		27
Tangible fixed assets		**39**		40
Other assets		**54**		53
Prepayments and accrued income		**62**		65
Total assets		**5,701**		5,330

Liabilities		
Deposits by banks	**208**	215
Debt securities in issue	**1,089**	1,128
Convertible bonds	**378**	367
Other liabilities	**59**	57
Accruals and deferred income	**244**	199
Provisions for liabilities and charges	**13**	6
Subordinated liabilities	**50**	45
Defined benefit liabilities	**23**	83
	2,064	2,100
Called up share capital	**307**	307
Share premium account	**364**	359
Capital redemption reserve	**1**	1
Capital reserve	**2,605**	2,226
Revenue reserve	**437**	392
Own shares	**(77)**	(55)
Equity shareholders' funds	**3,637**	3,230
Total liabilities	**5,701**	5,330
Memorandum items		
Contingent liabilities		
Guarantees and assets pledged as collateral security	**21**	21
Commitments	**431**	333

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1.

Approved by the Board
Baroness Hogg
Philip Yea
Directors
11 May 2005

Consolidated cash flow statement
for the year to 31 March 2005

		2005 £m	2004 (as restated)* £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments		**64**	66
Other interest received and similar income		**46**	35
Dividends received from equity shares		**103**	93
Fees and other net cash receipts	- revenue	**38**	41
	- capital	**18**	5
Administrative expenses paid	- revenue	**(74)**	(53)
	- capital	**(94)**	(91)
Additional pension contributions		**(60)**	(13)
Net cash inflow from operating activities		**41**	83
Returns on investment and servicing of finance			
Interest paid on borrowings	- revenue	**(56)**	(59)
	- capital	**(25)**	(42)
Net cash flow from returns on investment and servicing of finance		**(81)**	(101)
Taxation paid		**(1)**	(2)
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans		**(719)**	(756)
Sale, repayment or redemption of equity shares, fixed income shares and loan investments		**1,287**	913
Purchase of tangible fixed assets		**(4)**	(2)
Sale of tangible fixed assets		**1**	1
Net cash flow from capital expenditure and financial investment		**565**	156
Acquisitions and disposals			
Investment in joint ventures		**-**	(25)
Divestment or repayment of interests in joint ventures		**14**	25
Net cash flows from acquisitions and disposals		**14**	-
Equity dividends paid		**(85)**	(83)
Management of liquid resources		**(309)**	(15)
Net cash flow before financing		**144**	38
Financing			
Debt due within one year		**(67)**	(232)
Debt due after more than one year		**11**	200
Issues of shares		**5**	12
Own shares		**(25)**	(20)
Net cash flow from financing		**(76)**	(40)
Increase/(decrease) in cash		**68**	(2)

* As restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1.

Notes to the financial statements
for the year to 31 March 2005

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

	2005 £m	2004 (as restated*) £m
Revenue profit before tax	**156**	136
Fees receivable and deal related costs accounted for in the capital reserve	**18**	5
Administrative expenses allocated to the capital reserve	**(94)**	(91)
	80	(50)
Interest payable – revenue	**57**	51
	137	101
Depreciation of equipment and vehicles	**4**	5
Tax on investment income included within income from overseas companies	**(1)**	(1)
Interest received by way of loan notes	**(36)**	(28)
Additional pension contributions	**(60)**	(13)
Movement in prepayments and accrued income	**8**	3
Movement in accruals and deferred income	**(18)**	17
Movement in provisions for liabilities and charges	**7**	(2)
Reversal of losses of joint ventures less distribution received	**-**	1
Net cash inflow from operating activities	**41**	83

* as restated to reflect the adoption of FRS 17 – Retirement Benefits and UITF 38 – Accounting for ESOP Trusts. See note 1

2 Reconciliation of net cash flows to movement in net debt

	2005 £m	2004 £m
Increase/(decrease) in cash in the year	**68**	(2)
Cash flow from management of liquid resources	**309**	15
Cash flow from debt financing	**59**	33
Cash flow from subordinated liabilities	**(4)**	(1)
Cash flow from finance leases	**1**	-
Change in net debt from cash flows	**433**	45
Foreign exchange movements	**(23)**	27
Non-cash changes	**1**	5
Movement in net debt in the year	**411**	77
Net debt at start of year	**(938)**	(1,015)
Net debt at end of year	**(527)**	(938)

3 Analysis of net debt

	1 April 2004 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	31 March 2005 £m
Cash and deposits repayable on demand	**94**	**68**	**(1)**	**-**	**161**
Treasury bills, other loans, advances and treasury debt securities	**725**	**309**	**4**	**-**	**1,038**
Deposits and debt securities repayable within one year	**(160)**	**67**	**(3)**	**(6)**	**(102)**
Deposits and debt securities repayable after one year	**(1,550)**	**(8)**	**(21)**	**6**	**(1,573)**
Subordinated liabilities repayable after one year	**(45)**	**(4)**	**(2)**	**1**	**(50)**
Hire purchase contracts	**(2)**	**1**	**-**	**-**	**(1)**
	(938)	**433**	**(23)**	**1**	**(527)**

4 Restatement of prior years
The effect of adopting FRS17 and UITF 38 is set out on the following table:

Total return	Other financial income/ (costs) on pension plan 2004 £m	Actuarial (losses) on pension plan 2004 £m	Total return 2004 £m
Previously reported	-	-	531
Adoption of FRS 17	(3)	(4)	(7)
As restated	(3)	(4)	524

	Assets		Liabilities	Shareholders' funds		
Balance sheet	Own shares 2004 £m	Other assets 2004 £m	Defined benefit liabilities 2004 £m	Capital reserve 2004 £m	Revenue reserve 2004 £m	Own shares 2004 £m
Previously reported	55	80	-	2,337	391	-
Adoption of FRS 17	-	(27)	83	(111)	1	-
Adoption of UITF 38	(55)	-	-	-	-	(55)
As restated	-	53	83	2,226	392	(55)

Notes to the preliminary announcement

Note 1
The preliminary announcement is prepared under the same accounting policies as set out in the statutory accounts for the year ended 31 March 2004 except as explained below.

Financial Reporting Standard 17 – Retirement Benefits ("FRS 17") The Group has adopted fully the reporting requirements of FRS 17, having previously complied with the transition disclosure requirements of the standard and SSAP 24.

Urgent Issues Task Force Abstract 38 – Accounting for ESOP Trusts ("UITF") The Group has also adopted UITF 38. This requires shares held by the 3i Group Employee Trust to be accounted for as a deduction in arriving at shareholders' funds rather than an asset.

The statutory accounts for the year to 31 March 2005 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2004 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 15 July 2005 to holders of shares on the register on 17 June 2005.

Note 3
Copies of the Report and accounts 2005 will be distributed to shareholders on or soon after 27 May 2005.

New investment analysis

Analysis of the equity, fixed income and loan investments made by the Group. This analysis excludes investments in joint ventures.

Investment by business line (£m)	**2005**	2004	2003	2002	2001
Buyouts	**532**	438	376	229	621
Growth Capital	**274**	349	379	390	428
Venture Capital	**144**	161	176	420	923
SMI	**12**	31	-	-	-
Total	**962**	979	931	1,039	1,972

The analyses by business line have been amended for the following changes: (i) SMI figures were previously included within those of the business lines to which the individual assets related. These have been separately identified in 2005 and the comparative year 2004, but not for earlier years; (ii) Smaller buyouts which were previously included within Buyouts are now disclosed within Growth Capital, for which all comparatives have been restated; (iii) the portfolio is analysed over the five year period showing assets within the business lines in which they are now managed. Previously, assets were included in the business line which reflected their stage of investment at the relevant balance sheet date.

Investment by geography (3i only - excluding co-investment funds) (£m)					
UK	**334**	309	318	377	786
Continental Europe	**341**	401	304	312	560
US	**51**	61	74	119	134
Asia	**29**	13	20	26	49
Total	**755**	784	716	834	1,529

Investment by geography (including co-investment funds) (£m)					
UK	**440**	375	399	443	1,006
Continental Europe	**433**	526	436	446	770
US	**51**	61	74	119	134
Asia	**38**	17	22	31	62
Total	**962**	979	931	1,039	1,972

Continental European investment (£m)					
Benelux	**24**	73	67	64	63
France	**91**	89	36	84	117
Germany/Austria/Switzerland	**124**	186	149	146	346
Italy	**21**	19	32	13	64
Nordic	**109**	106	69	90	16
Spain	**45**	34	75	45	131
Other European[1]	**19**	19	8	4	33
Total	**433**	526	436	446	770

[1] Other European includes investments in countries where 3i did not have an office at 31 March 2005.

Investment by FTSE industrial classification (£m)					
Resources	**93**	11	12	15	67
Industrials	**207**	219	328	110	256
Consumer goods	**195**	306	194	206	371
Services and utilities	**310**	290	197	352	482
Financials	**77**	33	54	26	55
Information technology	**80**	120	146	330	741
Total	**962**	979	931	1,039	1,972

Portfolio analysis

The Group's equity, fixed income and loan investments total £4,301 million at 31 March 2005.

Portfolio value by business line (£m)	**2005**	2004	2003	2002	2001
Buyouts	**1,570**	1,480	1,197	1,152	1,183
Growth Capital	**1,226**	1,214	2,000	2,647	2,710
Venture Capital	**743**	672	742	1,310	1,912
SMI	**762**	960	-	-	-
Total	**4,301**	4,326	3,939	5,109	5,805

Portfolio value by geography (including co-investment funds) (£m)					
UK	**2,751**	3,024	3,041	4,018	4,792
Continental Europe	**2,427**	2,299	1,773	1,984	2,039
US	**281**	241	182	270	246
Asia	**102**	86	101	101	98
Total	**5,561**	5,650	5,097	6,373	7,175

Portfolio value by geography (3i only – excluding co-investment funds) (£m)					
UK	**2,253**	2,506	2,494	3,386	4,121
Continental Europe	**1,688**	1,511	1,175	1,373	1,363
US	**272**	234	180	264	235
Asia	**88**	75	90	86	86
Total	**4,301**	4,326	3,939	5,109	5,805

Continental European portfolio value (£m)					
Benelux	**180**	181	101	78	92
France	**291**	234	186	253	254
Germany/Austria/Switzerland	**499**	454	319	385	556
Italy	**69**	53	69	103	142
Nordic	**344**	332	273	304	26
Spain	**249**	224	211	222	234
Other European[1]	**56**	33	16	28	59
Total	**1,688**	1,511	1,175	1,373	1,363

[1] Other European includes investments in countries where 3i did not have an office at 31 March 2005.

Portfolio value by FTSE industrial classification (£m)					
Resources	**161**	155	186	268	232
Industrials	**1,074**	1,018	944	1,117	1,081
Consumer goods	**964**	1,026	873	1,080	1,237
Services and utilities	**1,212**	1,275	1,018	1,318	1,538
Financials	**331**	238	274	273	256
Information technology	**559**	614	644	1,053	1,461
Total	**4,301**	4,326	3,939	5,109	5,805

Portfolio value by valuation method (£m)	**2005**	2004	2003	2002	2001
Imminent sale or IPO	**373**	174	37	51	106
Listed	**179**	225	187	413	818
Secondary market	**31**	29	30	89	266
Earnings	**1,138**	1,347	938	1,210	1,033
Cost	**468**	509	607	1,077	1,078
Further advance	**203**	149	155	186	244
Net assets	**92**	103	139	132	147
Other (including other Venture Capital assets valued below cost)	**417**	328	282	219	157
Loan investments and fixed income shares	**1,400**	1,462	1,564	1,732	1,956
Total	**4,301**	4,326	3,939	5,109	5,805

Buyout portfolio value by valuation method (£m)					
Imminent sale or IPO	**134**	59	-	-	-
Listed	**72**	79	46	93	215
Secondary market	**1**	1	6	12	16
Earnings	**372**	472	245	204	140
Cost	**71**	58	93	64	76
Net assets	**4**	2	7	9	6
Other	**47**	20	32	14	9
Loan investments and fixed income shares	**869**	789	768	756	721
Total	**1,570**	1,480	1,197	1,152	1,183

Growth Capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**120**	49	23	42	62
Listed	**29**	60	102	177	313
Secondary market	**7**	6	6	13	25
Earnings	**360**	350	658	967	850
Cost	**159**	171	230	284	175
Further advance	**14**	15	14	24	22
Net assets	**32**	39	131	115	140
Other	**184**	145	135	155	67
Loan investments and fixed income shares	**321**	379	701	870	1,056
Total	**1,226**	1,214	2,000	2,647	2,710

Venture Capital portfolio value by valuation method (£m)	**2005**	2004	2003	2002	2001
Imminent sale or IPO	**33**	36	14	9	44
Listed	**63**	62	39	143	290
Secondary market	**19**	19	18	64	225
Earnings	**22**	-	35	39	43
Cost	**221**	257	284	729	827
Further advance	**186**	119	141	162	222
Net assets	**1**	1	1	8	1
Other Venture Capital assets valued below cost	**82**	51	79	23	15
Other	**55**	66	36	27	66
Loan investments and fixed income shares	**61**	61	95	106	179
Total	**743**	672	742	1,310	1,912
- of which early stage Venture Capital	**561**	456	589	1,042	1,368

SMI portfolio value by valuation method (£m)					
Imminent sale or IPO	**86**	30	-	-	-
Listed	**15**	24	-	-	-
Secondary market	**4**	3	-	-	-
Earnings	**384**	525	-	-	-
Cost	**17**	23	-	-	-
Further advance	**3**	15	-	-	-
Net assets	**55**	61	-	-	-
Other	**49**	46	-	-	-
Loan investments and fixed income shares	**149**	233	-	-	-
Total	**762**	960	-	-	-

Venture Capital portfolio value by sector (£m)					
Healthcare	**236**	231	253	400	359
Communications	**183**	168	151	242	493
Electronics, semiconductors and advanced technologies	**140**	101	107	186	192
Software	**184**	172	231	482	868
Total	**743**	672	742	1,310	1,912

Realisations analysis

Analysis of the Group's realisations proceeds (excluding third party co-investment funds).

Realisations proceeds by business line (£m)	**2005**	2004	2003	2002	2001
Buyouts	**505**	205	345	138	204
Growth Capital	**443**	391	538	540	677
Venture Capital	**156**	91	93	261	670
SMI	**198**	236	-	-	-
Total	**1,302**	923	976	939	1,551

Realisations proceeds by geography (£m)					
UK	**897**	608	727	794	1,366
Continental Europe	**365**	245	238	133	181
US	**34**	10	2	10	-
Asia	**6**	60	9	2	4
Total	**1,302**	923	976	939	1,551

Realisations proceeds (£m)					
IPO	**41**	7	37	55	253
Sale of quoted investments	**134**	118	110	370	536
Trade and other sales	**744**	532	493	303	470
Loan and fixed income share repayments	**383**	266	336	211	292
Total	**1,302**	923	976	939	1,551

Realisations proceeds by FTSE industrial classification (£m)					
Resources	**105**	14	60	52	34
Industrials	**142**	216	294	193	211
Consumer goods	**394**	167	192	255	278
Services and utilities	**457**	352	330	288	338
Financials	**29**	80	42	18	33
Information technology	**175**	94	58	133	657
Total	**1,302**	923	976	939	1,551

Funds under management

(£m)	**2005**	2004	2003	2002	2001
Third party unquoted co-investment funds	**1,913**	1,875	1,587	1,995	2,131
Quoted investment companies (1)	**-**	600	452	761	870
Total	**1,913**	2,475	2,039	2,756	3,001

(1) 3i closed its quoted fund management business in 2005. The 3i Group Pension Plan is now managed by a third party.

Ten largest investments

At 31 March 2005, the Directors' valuation of the ten largest investments was a total of £636 million. The residual cost of these investments at that date was £285 million.

Investment (Business line) (Geography) Business description (First invested in)	Residual cost (1) £m	Proportion of equity shares held	Directors' valuation (1) £m	Income in the year (2) £m	Net Assets (3) £m	Earnings (3) £m
Travelex Holdings Ltd (4) (Buyouts) (UK)						
Foreign currency services (1998)						
Equity shares	-	19.6%	109	-		
	-		**109**	**-**	**88**	**45**
SR Technics Holding AG (Buyouts) (Switzerland)						
Technical solutions provider for commercial aircraft fleets (2002)						
Equity shares	7	32.2%	60	-		
Loans	43		43	3		
	50		**103**	**3**	**4**	**(1)**
Yellow Brick Road BV (5) (Buyouts) (The Netherlands)						
Directory services (2004)						
Equity shares	6	22.7%	37	-		
Loans	19		50	5		
	25		**87**	**5**	**57**	**(38)**
Canon Avent Group plc (Growth Capital) (UK)						
Manufacture of branded consumer goods (1995)						
Equity shares	5	22.2%	54	2		
	5		**54**	**2**	**37**	**14**
Betapharm Arzneimittel GmbH (Buyouts) (Germany)						
Supplier of generic prescription drugs (2003)						
Equity shares	31	30.5%	31	-		
Loans	21		21	2		
	52		**52**	**2**	**1**	**9**
ERM Holdings Ltd (6) (Buyouts) (UK)						
Environmental consultancy (2001)						
Equity shares	-	38.1%	18	-		
Loans	32		32	2		
	32		**50**	**2**	**(4)**	**-**
Pharmadule Emtunga AB (Buyouts) (Sweden)						
Modular facilities to pharmaceutical/biotech offshore and telecoms sector (2003)						
Equity shares	1	47.5%	8	-		
Loans	38		38	3		
	39		**46**	**3**	**9**	**(1)**
Refresco Holding BV (Buyouts) (The Netherlands)						
Fruit juice producer (2003)						
Equity shares	2	38.3%	19	-		
Loans	14		14	1		
Preference shares	12		12	-		
	28		**45**	**1**	**32**	**6**
Williams Lea Group Ltd (Growth Capital) (UK)						
Outsourced print services (1965)						
Equity shares	33	37.9%	45	2		
	33		**45**	**2**	**51**	**6**
Petrofac Ltd (7) (Growth Capital) (UK)						
Oilfield services (2002)						
Equity shares	-	16.2%	45	-		
Loans	21		-	1		
	21		**45**	**1**	**74**	**17**

Notes

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

2 Income in the year represents dividends received (inclusive of any overseas withholding tax) and gross interest receivable in the year to 31 March 2005.

3 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 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.

4 The residual cost of the equity held in Travelex Holdings Ltd is £120,560.

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

6 The cost of the equity held in ERM Holdings Ltd is £387,701.

7 The loan to Petrofac Ltd is convertible into equity, which has been reflected in the valuation of individual instruments.