The world is yours

3i Group plc Report and accounts 2003

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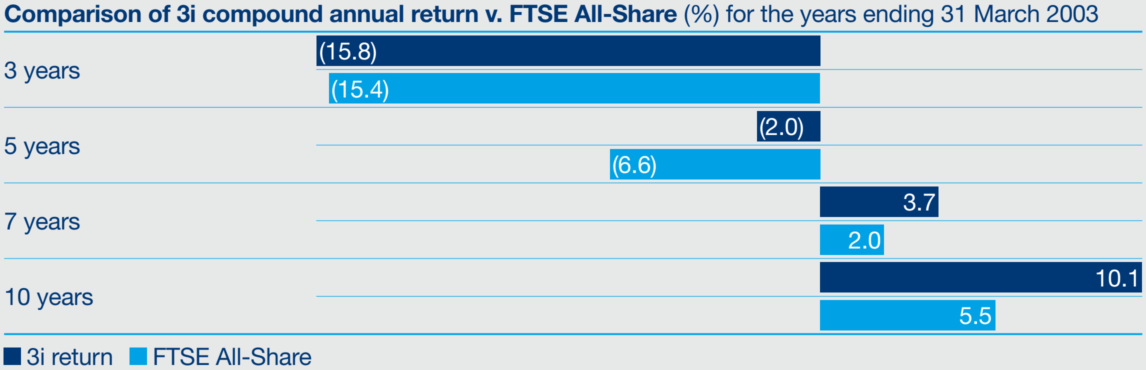
Five year record	**2003**	2002	2001	2000	1999
Net asset value per share (p)	**480**	645	815	847	601
Dividend per share (p)	**13.5**	13.0	13.0	12.2	11.3
Total return (£m)	**(935)**	(960)	(142)	1,579	177
Return on opening shareholders' funds (%)	**(23.7)**	(19.3)	(2.7)	43.8	5.1
Revenue profit after tax (£m)	**140**	106	116	115	110
Realisation proceeds (£m)	**976**	939	1,551	1,132	852
Realised profits/(losses) on disposal of investments (£m)	**184**	(39)	453	350	180
Unrealised value movement on revaluation of investments (£m)	**(1,165)**	(890)	(676)	1,167	(90)
Investment (£m)	**931**	1,039	1,972	1,376	1,147
Share price at 31 March (p)	**417**	787	1,122	1,318	626

Comparison of 3i compound annual return v. FTSE All-Share (%) for the years ending 31 March 2003



An introduction to 3i

3i is Europe's leading venture capital company. We focus on buy-outs, growth capital and early stage technology and invest across Europe, in the United States and in Asia Pacific.

Our competitive advantage comes from our international network and the strength and breadth of our relationships in business. This network provides unrivalled market access, helps us to win the deals we want to do and is a source of added value in building and realising value for our shareholders.

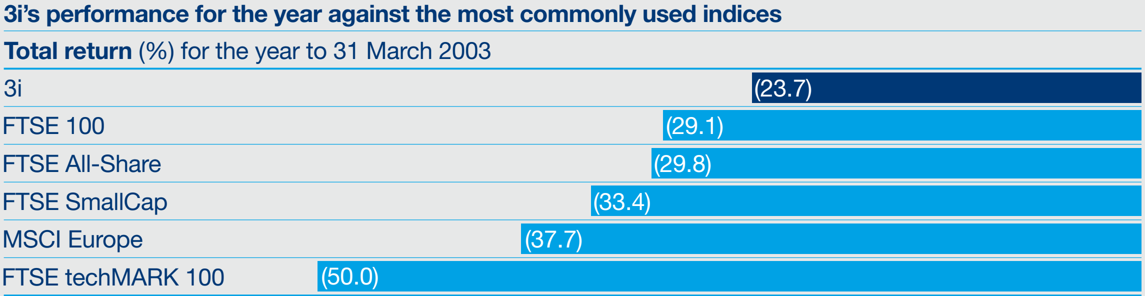
Financial results

Net asset value per share	**480p**
Dividend per share	**13.5p**
Total return on opening shareholders' funds	**(23.7)%**
Revenue profit after tax	**£140m**
Realisation proceeds	**£976m**
Realised profits on disposal of investments	**£184m**
Unrealised value movement on revaluation of investments	**£(1,165)m**
Investment	**£931m**

Investment amounts referred to in this report relate to investments made by 3i Group and third party unquoted funds unless otherwise stated.

Portfolio amounts referred to in this report relate to assets owned by 3i Group and exclude assets managed on behalf of third parties unless otherwise stated.

3i's performance for the year against the most commonly used indices



Baroness Hogg Chairman

Chairman's statement

"The substantial changes we have made to the business in the past year to sharpen our competitive position, improve our investment processes and increase efficiency provide 3i with a much stronger base for growth."

This has been a year of challenge and change for 3i. Our mid-market buy-out business achieved a strong performance, despite the faltering economic recovery. But market conditions were particularly difficult for our technology portfolio. 3i has responded to the challenge by restructuring its organisation along product lines, giving clear leadership to all parts of the business, while using its international network to help the portfolio companies in which it invests to realise their potential for growth.

The rigour with which we have reviewed the value of our technology portfolio has had an impact on our net asset value, contributing to a negative return on shareholders' funds of 23.7% over the year to 31 March 2003. It may be small comfort to shareholders that this is still less than the drop in our benchmark, the FTSE All-Share, which fell 29.8%, or the FTSE SmallCap, which was down 33.4%. As the charts on page 1 show, we have also maintained our record of long term outperformance. But our share price, which proved volatile during the year, was 47% down in the year to 31 March.

Despite the virtual closure of the market for new issues, we achieved a strong flow of realisations: a total of nearly £1 billion, at a healthy profit over the value at which these investments were held at the beginning of the year. Income, too, has held up well in a difficult environment, and costs have been reduced. The Board is recommending a final dividend of 8.6p, making a total dividend of 13.5p, an increase of 3.8% from 13.0p last year.

A particular strength of 3i's business in times like these is the balance of our three key product groups – buy-outs, growth capital and early stage technology. Our Chief Executive, Brian Larcombe, has carried out an extensive reorganisation of management and investment processes to provide each with international leadership and focus.

The buy-out business, led by Jonathan Russell, achieved some strong realisations during the year such as Go, the low cost airline. The benefits of local origination of investment opportunities, sector focus and product expertise are also coming through with new investments by the buy-out team, such as De Telefoongids.

Our growth capital investment business, for which there is a considerable market opportunity, has received fresh impetus under the leadership of Chris Rowlands, who has rejoined 3i as a member of the Executive Committee.

Under the leadership of Rod Perry, our early stage technology business is now more narrowly targeted on the sectors which we believe will offer the best investment opportunities. It is also focused on achieving good realisations from our existing portfolio.

As I indicated at the half-year, there have been a number of changes to the Board. Two executive Directors, Richard Summers and Peter Williams, retired from the Board at the end of 2002. I would like to thank them for the major part they played in the development of 3i right through the 1980s and 1990s. Christine Morin-Postel, who joined the Board in September as a non-executive Director, brings a wealth of international experience in financial services and industry and is already making an important contribution.

I would also like to pay tribute to our staff, who have shown a high degree of energy and realism throughout the year, and are constantly alert to good opportunities to invest.

The strength of 3i's balance sheet and its leading positions in the key venture capital and private equity markets mean that the business has the robustness needed during the downturn in markets and economic conditions. This combination also means that 3i is well positioned to take advantage of an upturn.

The substantial changes we have made to the business in the past year to sharpen our competitive position, improve our investment processes and increase efficiency provide 3i with a much stronger base for growth.

Sarah Hogg

Baroness Hogg
Chairman
14 May 2003

Brian Larcombe Chief Executive

"Our priorities have been to pursue our core strategy, rebalance our investment activity, improve the quality of our processes and investment portfolio, and increase specialisation."

Chief Executive's statement

Overview For the second consecutive year, we are reporting a substantial fall in the value of the portfolio and shareholders' funds.

The market has undoubtedly been difficult and, particularly for early stage technology companies, the operating environment has been the toughest for a very long time.

Our Operating review considers the performance of our product businesses – buy-outs, growth capital and early stage technology – in more detail. In summary, our mid-market buy-out business performed well and achieved a positive return. Our smaller buy-out business and our growth capital business both performed satisfactorily but produced negative returns, partly because of reduced valuations arising from falling stock markets. Our early stage technology business saw a substantial fall in the value of its portfolio and was the principal factor contributing to the Group's negative total return.

The return from our mid-market buy-out business of 5% and the negative return of 12% in our growth capital business compare strongly with the movements for the All-Share Index of minus 29.8% and the SmallCap Index of minus 33.4%. Our early stage technology business saw a decline of 51%, which is very similar to the fall in the techMARK Index of 50.0%.

At the Group level, we generated about £1 billion of realisation proceeds, at good prices, and this has enabled us to retain our balance sheet strength.

We have maintained our long term strategy but have taken significant actions to improve the quality of our processes.

Market conditions The weakness in stock markets in the year clearly recognises the slowing down of world economies and the continuing pressure on corporate profits. This has had a major impact on the private equity industry which has seen falling returns and a difficult fundraising climate.

For calendar year 2002, total investment in private equity and venture capital in the US and Europe is estimated to have increased by approximately 10% to $91 billion. However, within this total, buy-out investment was up 69% to $61 billion, whereas early stage investment was down 53% to $4.1 billion in the US and by 66% to $2.5 billion in Europe.

We have continued to invest in line with our strategy of building a balanced portfolio.

In our main European markets, we invested in about 10% of completed transactions, thereby maintaining our market leading position.

Liquidity for the private equity and venture market has generally been difficult with significantly lower levels of mergers and acquisitions activity and virtually no IPOs. In this environment, it is very encouraging that we saw such a strong interest in many of our portfolio companies.

Strategy and competitive advantage Our strategy is to:

- develop the business internationally;
- build a balanced investment business;
- use the network as our key competitive advantage; and
- invest primarily in growth companies.

Our network enables us to use our local presence and established relationships to identify opportunities in which to invest. This, combined with our scale, gives us the ability to use specialist resources for winning deals, carrying out extensive referencing and adding value to our portfolio companies.

A key element of our strategy is maintaining a balanced business with about 40% of our assets in buy-outs, 40% in growth capital and 20% of our portfolio in early stage technology based companies. The proportion of our portfolio in technology companies increased during the bubble in

Portfolio value by product (£m) as at 31 March 2003

Buy-outs*	1,927
Growth capital*	1,206
Early stage technology	589
Quoted	217
Total	**£3,939m**

* Buy-outs and growth capital include a total of £544m in unquoted late stage technology companies. See page 71 for further information.

Portfolio value by geography (£m) as at 31 March 2003

UK	2,494
Continental Europe	1,175
US	180
Asia Pacific	90
Total	**£3,939m**

Portfolio value by FTSE classification (£m) as at 31 March 2003

Resources	186
Industrials	944
Consumer goods	873
Services and utilities	1,018
Financials	274
Information technology	644
Total	**£3,939m**

2000 and 2001, which has damaged our short term performance, but we have now broadly restored the shape of the portfolio in line with our long term strategy.

We seek to invest in companies with good growth potential rather than relying on financial engineering as the driver of value growth. Additionally, we look for growth markets, a strong and well-balanced management team and a business strategy that will deliver value to all shareholders.

Strategy and management action We have adjusted our resources and organisation to meet the market challenges. The process of reorganising the business on to a product as well as geographical basis is now largely complete. We have also reduced staff numbers to align resources with market conditions.

Our business is led on a product and sector basis. Jonathan Russell heads up our buy-out business and Rod Perry our technology business. Following the retirements of Peter Williams and Richard Summers, who had respectively run our UK and continental European networks, we were particularly pleased to recruit Chris Rowlands back to 3i. Chris is, in addition to responsibilities for the UK regional network and the northern European countries, driving forward our growth capital business across Europe.

The drivers of change in our product approach have been specialist teams, focused marketing and using our resources on a pan European basis. This model, which we adopted in our buy-out business two years ago, is working well and delivering strong investment opportunities.

Key elements of this approach include a refined investment process and a new performance management system for our staff.

We closed our office in Tokyo and subsequently our office in Dublin, but made no other changes to our country network. In Japan, we had hoped to develop a mid-market buy-out business, but after three years it became clear that this market was not developing at a rate to support a local presence. Our decision to close our Dublin office reflected the slower than expected development of the Irish private equity market.

In Germany, market conditions have been very tough, particularly for early stage companies, and we have carried through a major restructuring resulting in the closure of our offices in Hamburg and Berlin.

Outlook In the short term, the outlook for corporate profits growth remains weak. Against this background, we are actively managing the portfolio and focusing investment on those companies that can thrive in this more difficult environment.

Market weaknesses and imperfections also create great opportunities and we are mindful that the recession years of 1992-93 were excellent vintages in terms of investment returns.

Although cautious about the short term outlook, I have every confidence in 3i's business.

Brian Larcombe
Chief Executive
14 May 2003

Operating review

Overview This review comments on the operations of our buy-out, growth capital and early stage technology businesses and covers the market conditions and our operating performance in Europe, the US and Asia Pacific. The review also comments on our third party fund management activities.

Go Fly Limited

The sale of Go Fly, the low cost airline, to easyJet in July 2002 crystallised a total return of £91 million (including £86 million of realised capital profits) on its investment (made in June 2001) of £56 million. 3i's industry knowledge, experience and contacts from earlier investments were valuable in allowing it to evaluate the investment opportunity and in winning management's support for a 3i-led deal. 3i's previous contact with British Airways was also important in the 3i-led proposal being selected as the preferred bidder in June 2001.

Featured: Barbara Cassani, CEO of Go Fly and Tom Sweet-Escott, 3i Director.

Buy-outs 3i continues to lead the pan European mid-market for buy-outs and this part of the business, led by Jonathan Russell, has performed strongly through the year. 3i's focus within this market is on transactions with a value from €25 million to €500 million. The vendors of these companies are typically large corporates disposing of non-core subsidiaries or private groups with succession issues. Market statistics for calendar year 2002 show that there were 153 transactions in this segment of which 3i invested in 18.

3i is also active in the smaller buy-out market (below €25 million). This is a more fragmented segment and one in which 3i's local network provides ideal access to the private vendors, management teams and local advisers involved.

During the year to 31 March 2003, 3i made 63 buy-out investments, with 3i and funds managed by 3i investing £482 million, of which 3i led 14 new mid-market deals investing £338 million including co-investment funds. Realisations from the buy-out portfolio were strong with total proceeds of £613 million, including £144 million from the sale of Go. These realisations were achieved at an aggregate equity uplift of 69%.

Our buy-out performance is driven by a clear product strategy, which is rigorously applied. This strategy is to build competitive advantage from our scale and local knowledge so that we see the market, select the most attractive investment opportunities and drive value from our portfolio.

We see the market through the local access that the 3i network provides, through our sector teams, through the relationships that we have built with large corporates and through the people programmes we run for chairmen, chief executives and independent directors.

We aim to select the most attractive opportunities through harnessing our international network and experience and by assembling the best team for the job from our regional, sector and buy-out specialists. A transaction like De Telefoongids (profiled on page 7), involved our local office in Amsterdam, two of our sector teams, Media and Communications, as well as members of our pan European buy-out team.

A panel of our most experienced buy-out investors ensures rigorous application of our investment process and provides additional guidance to try to ensure that we win the buy-outs that we want to do at an attractive price.

Once we have made an investment, it is critical that we add value. We do this through the investee company board, through our knowledge and experience and through our network.

3i's investment in Go (profiled on page 6) was a good demonstration of our approach to this market. Access to the original investment was gained through strong corporate relationships with British Airways and its advisers. Past experience, track record and relationships in the sector enabled 3i to take an informed view and win the transaction at the right price, £110 million. Through the efforts of the management team and staff, led by CEO Barbara Cassani, both market share and profitability levels increased. They were supported with the introduction of Keith Hamill as Chairman and non-executive directors, including Paul Sternbetz, who was formerly Operations Director for Southwest Airlines in the US. easyJet, a natural strategic buyer for Go, made a successful bid in July 2002 of £374 million for the business.

Our view is that the medium term outlook for buy-outs is improving. Economic conditions and depressed public markets are encouraging corporate restructuring and the selling off of non-core activities. Reduced levels of corporate mergers and acquisitions activity mean there is less competition from trade buyers. We believe that there is a significant amount of pent up demand, both in terms of corporates with subsidiaries to sell and of good management teams keen to gain their independence.

Growth capital Growth capital has always been a core part of 3i's business. It involves the provision of capital to accelerate the growth of established businesses and generally involves investing in a minority equity position. It is a product suited to a diverse range of growth opportunities, including acquisitions, increasing production capacity, market or product development, turnaround opportunities, shareholder succession and change of ownership situations.

In the second half, we observed signs of increasing demand for growth capital, resulting from two main factors. Firstly, companies were unable to raise capital by achieving an IPO on European stock markets and, secondly, debt providers adopted a more cautious view on the level of finance they would advance. Both these factors are increasing demand for growth capital. Furthermore, as and when the economic outlook improves, we would expect deferred expansion and acquisition plans to be reactivated, giving rise to an increasing demand for growth capital. We believe that we are well placed to take advantage of these conditions.

De Telefoongids

In February 2003, 3i co-led the £345 million buy-out of the De Telefoongids telephone directories business from KPN (the Dutch telecommunications group), investing £22.6 million of its own capital. 3i's local presence in Amsterdam, the use of sector and buy-out specialists within its investment team, its prior investment experience and knowledge of telephone directories businesses and its ability, through its network, to source a CEO and a number of key managers with highly relevant directories business experience combined to help create a winning bid.

PaperPak

In September 2002, 3i led the £65 million buy-out of PaperPak, an international manufacturer and supplier of adult incontinence products. 3i's investment totalled £15.3 million. The combination of 3i's local presence in Stockholm, supported by buy-out specialists from London, and 3i's knowledge of the sector both persuaded the incumbent management team to work with 3i and enabled 3i to appraise and execute the investment opportunity. 3i also introduced a chairman with relevant strengths from its Partnership Programme and a non-executive director, with a background in healthcare and turnaround situations, from its Independent Directors Programme.

Featured: Alan Peterson (left), Chairman of PaperPak and Chris Williams, Director of 3i London Buy-out team.

Ten largest 3i-led buy-out investments in the year

Company	Business description	Country	Transaction size £m	3i and funds total investment £m
De Telefoongids	Telephone directories	The Netherlands	345	45
Westminster Health Care	Care homes operator	UK	301	55
SR Technics	Repair and maintenance of aeroplane engines and frames	Switzerland	293	70
Esmalglass	Manufacturer of frites and glazes for ceramic tiles	Spain	159	48
E2V technologies	Switching, sensing and imaging components	UK	77	21
Extec	Manufacturer of mobile crushing equipment	UK	68	15
PaperPak	Manufacturer of incontinence products	US/Europe	65	24
United Transport Tankcontainers	Tank container operation moving hazardous chemicals	The Netherlands	65	12
Partners for Finance/Legal Marketing Services	Specialist financial services	UK	37	9
Ascent Technology	IT software consultancy and supply	UK	17	10

Our strategy for this product targets investments from 3i of between £2 million and £30 million, across a range of sectors. This product is primarily focused on 3i's European and Asia Pacific markets and has historically had a less competitive environment than buy-outs.

Success in this market is determined by the ability to build long term relationships with local businesses and local intermediaries, as well as demonstrating the capability of helping these businesses to grow. This fits well with our strategy of local presence, sector specialisation, sharing knowledge and offering local businesses access to our international network of relationships.

Chris Rowlands was appointed to lead growth capital investment in September 2002 and he has brought a more focused approach to deal origination and the key processes for this product.

A Product Leadership Team, with representatives of each of the targeted regions in Europe, coordinates individual country activities, develops and implements strategy and operates as a forum for sharing ideas on a range of best practices.

Certain sectors are ideally suited to the growth capital product. A good example is the oil and gas sector. The North Sea exploration and production sector is undergoing significant change and a number of new independent businesses are emerging as the next generation of North Sea oil companies. In the oil and gas services sector, the ability to provide services on an international basis is an important competitive advantage, and capital is required to enable the development and international distribution of products and services. 3i's sector knowledge, local presence and international network combine to position us as

Parkdean Holidays plc

3i invested in Parkdean in November 1999 and achieved a full realisation, via a listing on AIM in May 2002, earning a total return of £3.8 million on its £7.0 million investment. Parkdean was set up to undertake a buy and build strategy in the UK caravan park business. 3i contributed to the successful implementation of this strategy through the provision of appropriate financial engineering, strategic support as the company made and integrated four acquisitions and through the introduction of Graham Wilson, an executive chairman who was well known to 3i, having worked on three previous 3i investments and who had a strong track record in the leisure industry and in making acquisitions.

Prosol Gestion

In January 2003, 3i invested €14 million in Prosol Gestion, a specialist retailer of fresh, chilled and ambient food based in Lyon, France, to help fund the rapid roll-out of 70 new stores over the following five years and thereby to secure Prosol's leading position in this attractive product category. Three factors were key to 3i winning the deal against intense competition: 3i's local presence in Lyon; its ability to fund potential further rounds of investment; and its retail sector contacts, which were instrumental in allowing senior Prosol management to have direct access to senior management at a leading UK food retailer. 3i has recently introduced a non-executive director with relevant sector and roll-out experience.

a strong financial partner to such businesses. Major transactions by our Oil and Gas team in Aberdeen during the year included the investments in Petrofac Limited and Faroe Petroleum Limited, and the partial realisation, through an IPO on the London Stock Exchange, of our investment in John Wood Group plc. In addition, the sale of Orwell Group plc crystallised a total return for 3i of £35.0 million on our total investment of £2.9 million.

During the year, we invested £273 million (2002: £258 million) in growth capital transactions, 46% (2002: 32%) of which was in companies new to our portfolio.

However, despite difficult conditions for sales and IPOs, a good level of realisations was achieved, with proceeds of £270 million during the year and an equity uplift of 30%.

Early stage technology The continuing depressed state of the technology and capital markets meant that 3i's early stage technology business, which at 31 March 2003 represented 15% of our assets, had a difficult year. A negative return of £(671) million, arising principally from a reduction in the value of the portfolio to reflect these market weaknesses, severely impacted the performance of the Group as a whole.

ultrafilter AG

The sale in July 2002 of ultrafilter AG to US based Donaldson Corp. enabled 3i to crystallise its minority investment in the Haan (Germany) based specialist filter technology business. 3i´s initial growth investment in 1989 was followed by two further funding rounds, in 1996 and 2000, to support the expansion of ultrafilter's export business and an acquisition in northern Germany respectively. 3i's local presence in Dusseldorf enabled 3i to stay close to management throughout, providing strategic input during the earlier expansion and acquisition phases and at the latter exit stage. In addition, 3i was key in sourcing a new CFO when that position became vacant.

However, following a restructuring under the leadership of Rod Perry, we now have a tightly focused business which is targeted at four key sub-sectors.

We have also focused this activity on a smaller number of our locations and have refined the investment process. As a result, we now believe 3i is well positioned to take advantage of current market conditions and to seize the opportunity presented by an improved environment in the medium term.

We continue to develop and nurture our relationships with key larger corporates in each sub-sector, since these corporates are potentially customers, partners or ultimate buyers of our individual portfolio companies, and to share these relationships with our portfolio companies. The events we hold for portfolio CEOs and key larger corporates are one way in which we do this. For example, the 3i eSecurity CEO Conference at the IESE business school in Barcelona in November 2002 was attended by over 20 3i-backed companies and 25 corporates, including IBM, Sun Microsystems and Microsoft.

The year to 31 March 2003 saw total investment of £176 million, and realisation proceeds of £93 million, at an equity loss of 26% on the carrying value at 31 March 2002.

The two biggest early stage technology markets, Europe and the US, both experienced significant falls in aggregate investment during 2002. According to market statistics, the total amount invested in Europe fell 66% to $2.5 billion. Most of this investment was in support of existing venture capital backed businesses rather than in completely new opportunities. 3i also saw this pattern, with 78% of early stage technology investment during the financial year being in our existing portfolio.

The US market has shown a similar fall. According to market statistics, aggregate investment fell by 53% in 2002. Our US business is also now making a contribution to the rest of the Group, through the relationships we have been building with larger corporates such as IBM.

Balance and flexibility

A key theme underpinning our business is "balance and flexibility", which has a number of different aspects.

Firstly, our ability to balance the strengths of our international network with our local presence gives us a strong and unique source of competitive advantage, enabling us to originate an attractive deal flow and to assemble the "best team for the job". We can draw upon complementary skills and knowledge across international, sector and product boundaries.

We invest across each of the three product categories within private equity and venture capital – buy-outs, growth capital and early stage technology – with product specialists in each. We strive for balance in our investment activity in terms of product, geography and industry sector.

3i's balance sheet enables us to take a view of the relative attractiveness of the new investment and realisations markets. In an uncertain environment, we have sought to achieve a balance between these two key aspects of our business, but we are able to flex their respective levels in line with our view of market conditions. We are also able to take a balanced and flexible view with regard to the period we hold individual investments.

We aim for balance as regards our people. Our culture embraces a balanced lifestyle between work and family; and in our people we seek a rounded set of qualities – we recognise the need for strong technical and task-oriented skills and the benefits of competitive behavioural instincts, but equally emphasise other qualities such as sound judgement, the ability to work in a team, as well as communication, motivational and influencing skills.

Finally, we aim to take a balanced outlook in planning our business activity, recognising the risks that face us and our need to manage them, but also having an eye for opportunity and ensuring we are well placed to exploit it.

The key factor in the weak investment performance of early stage technology companies has been the depressed state of the markets for their products and services. The most important cause of this has been the significantly reduced levels of expenditure by corporates on information technology and related applications. A number of 3i's investments have underperformed as their business models have been undermined by significantly lower levels of demand than expected.

A number of technology companies have also experienced difficulty in translating a strong product into a commercial success. An example is Weston Medical, a 3i investment that achieved an IPO in 2001. Weston's needle-free injection product was technically respected but the company was unable to translate that into commercial success, and recently went into receivership.

In the context of the reported performance of 3i's early stage technology investments made in the period 1999 through 2001, the "J-Curve" phenomenon (so named because the reported performance of a portfolio or vintage of technology investments tends to dip in the early years before rising again, as poor and failing investments become apparent before the successful ones) is interesting. While the continuing depressed markets and the difficulty of commercialising newly developed products have adversely affected the reported performance of that portfolio, the J-Curve phenomenon would hold that the performance of the remaining portfolio should improve as more of the underlying businesses achieve success and the investments are realised.

The financial performance of the early stage technology portfolio was also adversely affected by falls in value. Valuation of technology companies usually involves reference to valuation ratios of listed companies or the price at which similar companies have been acquired. However, the absence of an active market for IPOs and a low level of mergers and acquisitions activity have diminished the usefulness of these traditional benchmarks. Another benchmark involves reference to the value at which private companies in the early stage technology sector are currently raising capital. During the year, capital has generally been raised through funding rounds at lower capitalisations than previous rounds, even when a company is meeting its milestones, and they have therefore become known as "down rounds". Our valuations reflect the impact of actual down rounds undertaken by our portfolio companies, and also at 31 March 2003 the application of this benchmark to companies with no imminent plans to seek funding. The combined down round effect during the year was a £361 million reduction in value of which £269 million was in respect of early stage technology investments.

In conclusion, the early stage technology business has seen a significant loss of value this year but the portfolio has been valued using prudent assumptions regarding the outlook for market conditions, and the business has been reshaped for the market we now face.

Europe Economic conditions across Europe weakened during the year. In general, manufacturing sectors experienced difficult conditions but the downturn has spread to all sectors, including retail and services, largely driven by weakening consumer demand.

The prevailing economic uncertainty continues adversely to affect the levels of private equity investment, as institutional investors, banks and equity providers have become more cautious and vendors of businesses have become increasingly unwilling to sell in the face of falling prices. Additionally, expansion and acquisition plans have been deferred and spending on information technology by corporates has reduced. Offsetting

Adaytum Software Inc

The sale of Adaytum Software, Inc. a provider of financial planning software products to businesses, in January 2003 crystallised a total profit for 3i of £6.5 million on its total investment of £6.1 million, made over six investment rounds since January 1997. A key element in the successful development of the business was the expansion into and establishment of a strong base in the US, both of which were facilitated through 3i's contacts there, with venture capital firms and others.

Featured: Guy Haddleton, former CEO, Adaytum Software, Inc.

PlaceWare Inc

In January 2003, PlaceWare Inc, a provider of web conferencing services that enable businesses to conduct real-time, interactive presentations and meetings over the internet, announced that it had entered into an agreement to be acquired by Microsoft Corp, providing 3i with realisation proceeds of $14 million on its November 2001 investment of $7 million. 3i led the private placement financing round in 2001 and subsequently helped PlaceWare build its European business by facilitating approaches to 3i's network of portfolio companies. 3i's board representative at PlaceWare established the initial contact with Microsoft that ultimately led to the sale and also played a lead role in the sale negotiations.

these negative factors, economic conditions have encouraged corporate restructuring and the selling off of non-core assets, which has created opportunities for buy-outs.

Against this background, market statistics show that the total amount of private equity monies invested in Europe in 2002 increased to €27.2 billion from €24.3 billion in 2001, but was still below the €35.0 billion invested in 2000.

Across Europe, £835 million (2002: £889 million) was invested by 3i (including co-investment funds) in 357 companies during the year. In the UK, investment amounted to £399 million, compared with £443 million the previous year.

Despite difficult conditions, we achieved a strong level of realisations at good prices, comfortably in excess of the valuations we placed on those businesses at March 2002.

In total, realisation proceeds across Europe during the year amounted to £965 million, compared with £927 million the previous year.

There has been a significant reduction in the valuation of our portfolio, caused by increased provisions and value reductions as a result of down rounds and weaker business performance. At 31 March 2003, our portfolio in Europe amounted to £3,669 million, of which £2,494 million was in the UK.

During the year, we announced the closure of three of our offices in Europe (Hamburg, Berlin and Dublin) and we reduced the number of staff in our European business. These changes were made to align resources with the market and to reflect changes in our investment processes. 3i now has 27 offices across Europe.

US The US venture market has continued to be depressed throughout the year.

3i continues to develop its business in the US and to focus on managing the existing portfolio with a view to achieving realisations in the next few years.

During the year, £74 million (down from £119 million in 2002) was invested in 33 companies, of which £56 million was in new investments.

Our people programmes continue to deliver

Our people programmes continue to deliver At 3i, we believe that a strong board significantly improves a company's performance and that strong boards have clarity of purpose, the right people and good process.

Our people programmes focus on sourcing and developing people for four key board roles: Chairmen, Chief Executives, Finance Directors and Independent Directors.

The Independent Directors Programme ("IDP") is a pool of successful business people who are available to become a chairman or an independent director of 3i-backed businesses.

IDP members come from a wide range of industries and company backgrounds. Today, the programme has over 600 members in Europe, Asia Pacific and North America and they hold board positions in over 1,000 3i-backed situations.

The CEO programme provides 3i with access to talented and ambitious CEOs.

These programmes, which operate as a centre of excellence on people issues across 3i, deliver real value through deal origination, assessing opportunities, and building and realising value from our portfolio.

They have also enabled us to develop innovative training materials and approaches to board best practice for the people with whom we work. Events for members, such as "How do you know a good Finance Director when you see one?" are highly participative and draw on the combined experience of those attending and our 3i teams.

Asia Pacific The Japanese market has not developed as rapidly as we had expected, and the flow of quality deals has not been sufficient to justify the resourcing of our Tokyo office, which was closed in February 2003. The Japanese market will continue to be serviced out of the Hong Kong and Singapore offices, as will other markets in the region.

The Asia Pacific business invested £22 million during the year, including the first investment by the Hong Kong office, which was in a Korean multiplex cinema operator.

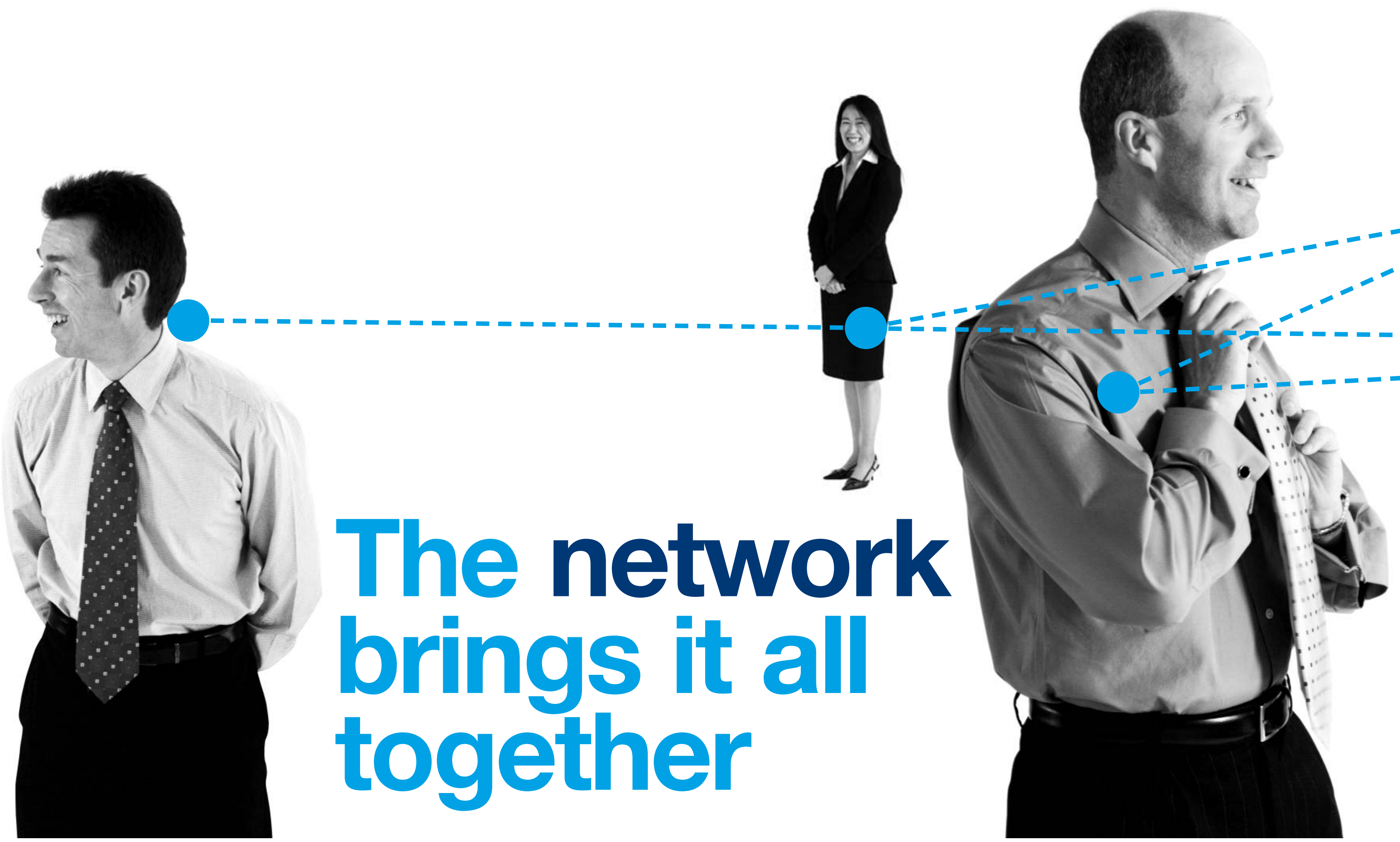
Conditions for realisations in the region were depressed during the year. Despite this, £9 million of realisation proceeds were generated.

Private equity fund management 3i manages third party co-investment funds primarily in our mid-market buy-out business, where capital raised is co-invested alongside our capital, enabling us to invest in companies without 3i itself holding a majority interest in the underlying business.

Since 1994, 3i has raised funds with total third party commitments of £2.3 billion. Funds are usually raised from institutional investors, typically pension funds and insurance companies seeking exposure to private equity and who are attracted by 3i's market leading position, business model and track record. The funds raised are typically invested on a 50:50 basis alongside 3i's capital.

During the year, we earned fee income of £34 million (2002: £35 million) from the management of funds and, in addition, received £7.3 million (2002: £1.6 million) in respect of carried interest on realisations. At 31 March 2003, the invested portfolio managed on behalf of third party investors was valued at £1,158 million (2002: £1,264 million), excluding undrawn commitments.

Since the balance sheet date, 3i has announced the successful first closing of its pan European mid-market buy-out fund, Eurofund IV. Third party investors have committed €0.4 billion and intend to invest a further €0.2 billion over the life of the fund and 3i intends to invest up to €1.5 billion. It is expected that further closings will take place over the coming months and the final closing of Eurofund IV will take place by the end of the year.



The network brings it all together

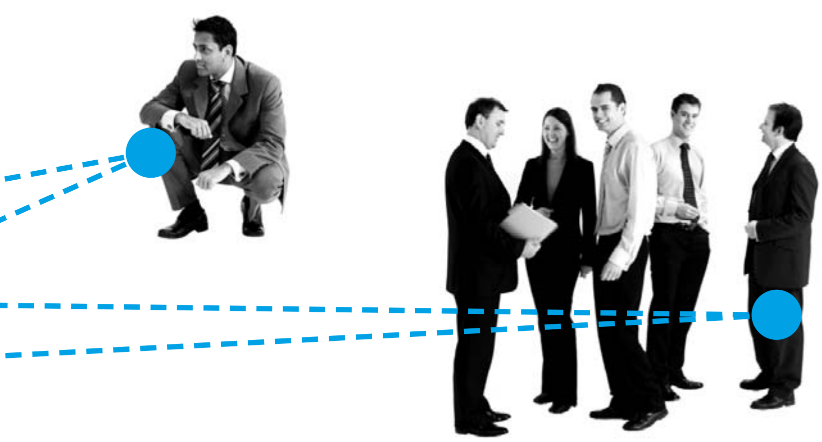
Third party unquoted co-investment funds under management (£bn)
at 31 March

Third party quoted funds under management (£bn)
at 31 March

Quoted fund management 3i's Asset Management team manages the Group's portfolio of quoted investments (comprising principally our holdings in investments that have achieved an IPO) as well as the portfolios of the 3i Group Pension Plan and of three quoted specialist investment companies – 3i Smaller Quoted Companies Trust plc, which invests in smaller UK companies, 3i Bioscience Investment Trust plc, which invests internationally in life science and healthcare companies, and 3i European Technology Trust plc, which invests in quoted companies across Europe whose focus is on technology.

At the balance sheet date, total third party funds under management by 3i Asset Management were £452 million. Fees earned from quoted fund management amounted to £4 million for the year, a reduction from £7 million last year, mainly due to the fall in capital markets.

Summary Despite a tough year, we have focused the business on the three product areas of buy-outs, growth capital and early stage technology. We believe we have the right structures and processes in place to gain access to and select the most profitable opportunities and then to enhance value and generate profit from the investments that we make. In an environment of low growth and low inflation, this strategy will enable 3i to provide superior returns for our shareholders.



3i's relationships deliver tangible benefits every day. Investments such as De Telefoongids in The Netherlands or Fonecta in Finland demonstrate that, without our teams on the ground in local business communities and our sector network and credibility, our pan European buy-out business would not have developed so quickly. Relationships with large corporates and key corporate finance houses enable exits like the sale of Bristan to Masco Corporation to maximise value.

Our people programmes enable us to take informed views of businesses at an early stage in the bidding process, assemble the best board for the job and increase our chances of winning the deals we want to do. They also help us reduce costs and avoid weak investments through earlier withdrawal.

When it comes to adding value to investments, relationships like those with IBM, which enabled a small software company deNovis to link up with IBM in winning a substantial contract with a large insurance company in the US, can propel an exciting business with potential into a commercial success. The leadership and sector insights that our Portfolio Chief Executives gain from our regular sector focused CEO summits at the IESE business school in Barcelona and INSEAD in Fontainbleau add a different kind of value. They learn, and they partner and forge new commercial relationships as a result. As the attendee from PlaceWare, one of our US investments, put it: "The conference was the most interesting portfolio event that I have ever attended. The concept of bringing your companies together in a beautiful location, to educate them with top academia, introduce them to peer group, industry leaders and target customers is truly superb networking".

Our network comprises many important groups of people. For example, management teams, larger corporates, our people programmes, intermediaries such as corporate finance advisers and search consultants, academic institutions, government and last, but not least, our staff.

Why does it deliver? Put simply, because we add value to the people in it. We have the systems in place to make it work in terms of IT knowledge management. More importantly, we ensure through our performance management systems and individual objectives that there is the right attitude. But above all, the network delivers because it is built on thousands of good relationships.

Michael Queen Finance Director

"3i has the financial capacity to increase investment when economic and market opportunities improve."

Financial review

Total return Total return for the year was a negative 23.7% on opening shareholders' funds, a return of £(935) million. High levels of investment in early stage technology companies in the three years to 31 March 2002, combined with the current exceptionally difficult conditions, have resulted in a total return of £(671) million for our early stage technology business. The downturn in other sectors and the fall in stock markets have resulted in negative returns for our smaller buy-outs and growth capital businesses, although our mid-market buy-out business produced a positive return. Overall, the effect of falling stock markets on total return was £(453) million.

3i's return of (23.7)% represents an outperformance against our benchmark indices, the FTSE All-Share (29.8)%, the FTSE 100 (29.1)% and the FTSE SmallCap (33.4)%. Over the medium and longer term, 3i has maintained its record of outperformance against stock market indices, except that over a cumulative three year period to 31 March 2003, the FTSE All-Share and FTSE 100 had marginally smaller negative returns by 0.4% and 0.2% respectively. For all longer cumulative periods up to 10 years, 3i has continued to outperform, and overall has maintained its margin of outperformance.

There was a strong performance on realisations, with realised capital profits of £184 million. The negative total return arose from the unrealised valuation movement on the portfolio of £1,165 million, due mainly to reductions in the valuation of the technology portfolio.

Given the difficult economic conditions, the mid-market buy-out business performed well, delivering a positive total return of £61 million, through a strong level of profitable realisations and a good income yield.

The smaller buy-outs and growth capital portfolios have produced negative total returns of £(188) million and £(137) million respectively. This is largely as a result of unrealised losses on the revaluation of the portfolio, caused mainly by a fall in price-earnings ratios used to value a large proportion of the portfolio and provisions for companies that may fail. Realisations were, however, strong, producing a satisfactory level of realised profits and there were also continued good levels of dividend and interest income.

In the early stage technology business, provisions continued at the high levels experienced in the previous year and the impact of the worsening conditions necessitated additional valuation reductions.

Geographically, the return from our UK investments was £(400) million and the return on our continental Europe investments was £(379) million. UK investments have earned a good income yield, mainly in the form of dividends and interest, and also strong realised profits, which partially offset reductions in the valuation of the portfolio. In continental Europe, the portfolio is weighted more towards early stage technology but the valuation reductions were partly offset by a currency gain of £95 million.

Our Asia Pacific business produced a return of £(16) million, and our US business, mainly in early stage technology, a return of £(140) million, which includes a currency loss of £26 million arising from the weakening of the US dollar against sterling.

Total return (£m)	**2003**	2002
Total operating income before interest payable	**308**	355
Interest payable	**(110)**	(120)
Management expenses	**(153)**	(171)
Realised profits/(losses) on disposal of investments	**184**	(39)
Unrealised value movement on revaluation of investments	**(1,165)**	(890)
Other (changes to organisational structure, goodwill, tax and currency)	**1**	(95)
– Revenue return	**146**	102
– Capital return	**(1,081)**	(1,062)
Total return	**(935)**	(960)

Total return by product (£m)		
Mid-market buy-outs	**61**	(48)
Smaller buy-outs	**(188)**	(38)
Growth capital	**(137)**	14
Early stage technology	**(671)**	(815)
Goodwill amortisation	**–**	(73)
Total return	**(935)**	(960)

Total return by geography (£m)		
UK	**(400)**	(298)
Continental Europe	**(379)**	(481)
US	**(140)**	(74)
Asia Pacific	**(16)**	(34)
Goodwill amortisation	**–**	(73)
Total return	**(935)**	(960)

Statement of Recommended Practice: Financial Statements of Investment Trust Companies (SORP) The recommendations of the revised SORP issued by the Association of Investment Trust Companies in February 2003 have been adopted in these accounts. Fee income earned and costs incurred on the acquisition or intended acquisition or disposal of investments are included in the capital return. The revenue account includes a tax charge of £30 million and the capital account a corresponding tax credit in respect of expenses charged to the capital return which are being utilised in reducing taxable revenue profits. Adoption of these recommendations has had no effect on total return and, as a result, as required by the SORP, comparatives for the previous year have not been restated.

In addition to implementing the revised SORP recommendations, the methodology used to identify management expenses and interest costs available for allocation between the revenue and capital accounts has been revised, resulting in a higher level of costs being available for allocation. All finance costs, less interest income on short term funds, are now available for allocation, as borrowings are now considered to finance investment packages, comprising equity shares and loans, rather than primarily loans as previously. The proportion of available management expenses and interest charged to the capital reserve has been reduced from 80% to 70% to reflect the expected future balance of returns from capital and revenue. This proportion had been increased from 70% to 80% in the year to 31 March 2001.

The effect of adopting the revised SORP recommendations and changes in the allocation methodology for management expenses and interest payable has been to increase revenue profits after tax this year by £50 million and to reduce the capital return by a corresponding amount, compared with the previous methodology.

Income, costs and revenue profit Total operating income was £308 million, a reduction from the previous year, £355 million. Interest receivable on loan investments of £96 million (2002: £113 million) has fallen due to lower interest rates (and the prior year benefited from some exceptional high yields on certain investments). Dividend income of £123 million (2002: £130 million) includes £46 million of dividends received on the sale and restructuring of investments (2002: £44 million). Fee income, comprising mainly unquoted fund management fees and investment negotiation fees, amounted to £56 million, the same as last year. Interest receivable on treasury assets has fallen to £34 million from £46 million, mainly due to a fall in interest rates.

Management expenses were £18 million or 11% lower than in the previous year, as the number of staff employed reduced from 943 to 858 at 31 March 2003. The cost of organisational changes in the year was £10 million (March 2002: £18 million). Costs less fee income amount to £97 million compared with £115 million last year.

Interest payable on borrowings, which are mainly fixed rate, has reduced by £10 million but this is offset by the fall of £12 million in interest receivable on treasury assets, included in total operating income.

Revenue profit after tax was £140 million, which is higher than last year (£106 million), because of changes in accounting treatment arising from the SORP and in the allocation of costs.

Realised profits on disposal of investments Realised profits on disposal of investments were £184 million which compares to a loss of £39 million in the previous year.

Proceeds amounted to £976 million, of which £110 million were realised from the quoted portfolio. Despite corporate mergers and acquisitions markets remaining weak throughout the year, realisations from the unquoted portfolio were strong, generating proceeds of £829 million, significantly higher than £514 million in the previous year. Realisations included the sale of Go, the low cost airline, which generated £144 million of proceeds and contributed £86 million to realised profits.

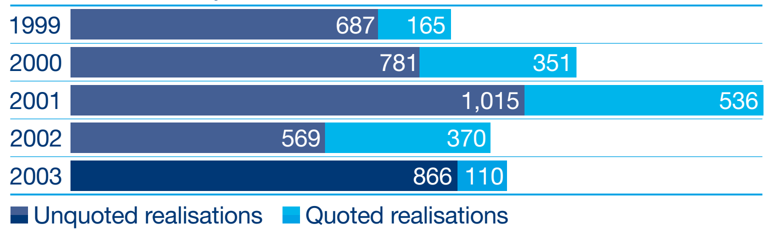
Unquoted equity investments were realised, after taking account of write-offs, at a good uplift of 40% over their March 2002 valuations. Sales of holdings in our quoted portfolio generated an uplift of 6% despite falling stock markets. The uplift achieved on the total equity realisations was 34%.

Overall, 14% of the total equity portfolio at 31 March 2002 was realised and, including loan and fixed income share repayments, 16% of 3i's total portfolio was realised.

Realised profits also include £50 million in respect of the write-off of subordinated borrowings, which are no longer repayable in full. These borrowings, where some of the risk was assumed by the finance provider, funded the acquisition of German technology investments, which have failed or been provided for this year and in previous years.

Realised profits are stated net of write-offs, which amounted to £79 million (2002: £151 million).

Realisations – five year record



Excludes realisations of non-venture capital investments in FTSE 350 companies of £156m in 2002 and £49m in 2001.

Realisation proceeds (£m)	**2003**	2002
Quoted equity investments and on IPO	**147**	425
Unquoted equity investments	**493**	303
Loan and fixed income shares	**336**	211
Total	**976**	939

Net realised profit/(loss) – over opening valuation (£m)	**184**	(39)
Equity proceeds (£m)*	**640**	728
Uplift over opening equity valuation (%)*	**34**	1
Percentage of opening equity portfolio sold (%)*	**14**	19

* Excludes the disposal in 2002 of non-venture capital investments made in FTSE 350 companies.

Unrealised value movement on revaluation of investments (£m)	**2003**	2002
Provisions	**(379)**	(400)
Down rounds and reductions to fair value	**(361)**	(181)
Price-earnings ratios	**(244)**	–
Earnings growth	**48**	130
Other movements on unquoted investments	**(20)**	(136)
Quoted portfolio	**(209)**	(303)
Total	**(1,165)**	(890)

Unrealised value movement on revaluation of investments There has been a net unrealised value movement of £(1,165) million. The main drivers have been provisions for companies which may fail of £379 million, down rounds and reductions to fair value of £361 million and the effect of falling stock markets which amounted to £453 million. Reductions in the valuation of the early stage technology portfolio make up 62% of provisions and 75% of down round and fair value adjustments.

Our approach to the valuation of early stage technology investments has changed over the last year. At 31 March 2002, the valuations of early stage investments were reduced where a down round or further financing had taken place at a lower value. At 30 September 2002, valuations were reduced for down rounds that had already taken place and also for those that were anticipated to take place within the next six months. At the balance sheet date, 31 March 2003, valuations of early stage investments were reduced for down rounds that have occurred or are anticipated, and were also reduced to an estimated down round value or to a fair value, even where no further financing is anticipated, based on the most appropriate valuation criteria available.

The continued fall in stock markets has led to a decrease in the value of the quoted portfolio of £209 million and has also reduced the weighted average price-earnings ratio used to value the unquoted equity portfolio valued on an earnings basis from 10.0 at March 2002 to 8.1. This has resulted in a further value reduction of £244 million.

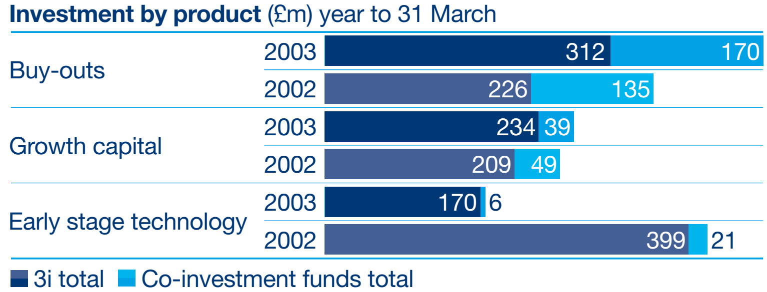
There has been an increase in investee companies' earnings, where these are used as a valuation basis at the start and end of the year, which has generated a valuation movement of £48 million; earnings of these portfolio companies have increased by 2%.

Unrealised value movement includes a net currency gain of £60 million (2002: £(1) million), mainly arising from the weakening of sterling resulting in an increase in the valuation of European investments partially offset by losses on related borrowings.

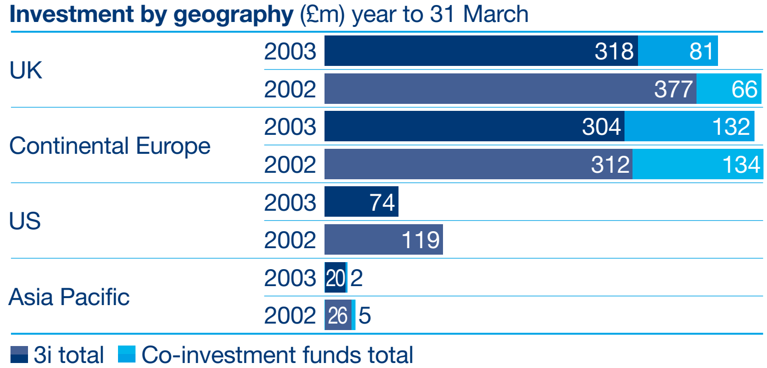
Investment During the year, we invested a total of £931 million (£716 million invested by 3i and £215 million of co-investment funds). This is lower than last year (March 2002: £1,039 million) but there was a 37% increase in the second half of the year reflecting improved investment opportunities in the market. Investment has been balanced and aligned more closely with our portfolio objectives with investment in buy-outs representing 52% of total investment in the year, growth capital 29% and early stage technology 19%. The majority of the technology investment, 78%, has been made in supporting our existing portfolio where those companies continue to look likely to deliver good returns over the medium term.

Investment across Europe was balanced with 43% of total investment being made in the UK and 47% in continental Europe. The US invested £74 million, 8% of total investment, reflecting the reduction in technology investment across the Group. Asia Pacific invested £22 million.

Investment by product (£m) year to 31 March

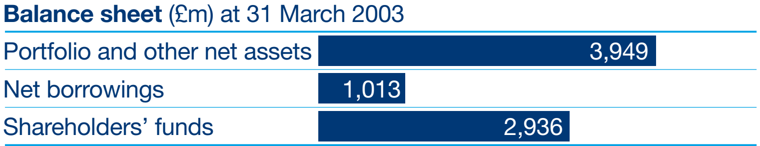


Investment by geography (£m) year to 31 March

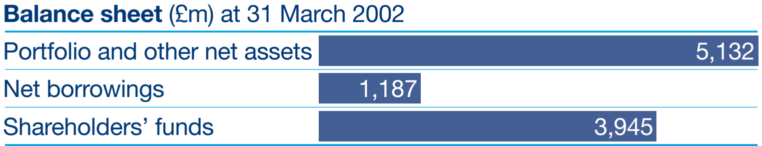


First and subsequent investment (£m)	2003	2002
New first investments	**585**	560
Further funding or drawdown on existing arrangements	**346**	479
Total	**931**	1,039

Balance sheet (£m) at 31 March 2003



Balance sheet (£m) at 31 March 2002



Cash flow and balance sheet Strong net realisation proceeds of £975 million and relatively low cash investment of £673 million were the main factors contributing to a cash inflow of £219 million, before a refinancing investment of £49 million in a joint venture, resulting in a net cash inflow of £170 million, reducing net borrowings to £1,013 million. This compares with a net cash outflow last year, after acquisitions, of £102 million.

The value of the portfolio (excluding co-investment funds) has fallen during the year from £5,109 million to £3,939 million largely because of unrealised losses on the revaluation of investments. Early stage technology investments amount to £589 million,15% of the total portfolio. Buy-out and growth capital investments amount to 51% and 34% of the portfolio respectively.

At the balance sheet date, 63% of the portfolio by value was located in the UK, 30% in continental Europe, 5% in the US and 2% in Asia Pacific. By sector, the portfolio continues to be well diversified. Of the total portfolio, 5% is represented by quoted investments, 40% by loans and fixed income shares and 55% by unquoted equity investments, of which 28% have been valued at cost and 44% on an earnings basis.

The capital and funding structure of the Group is strong. At the balance sheet date, shareholders' funds amounted to £2.9 billion, net debt to £1.0 billion and private equity co-investment funds under management were £1.6 billion. The net effect of the reduction during the year in both shareholders' funds and net borrowings has increased gearing to 35% (March 2002: 30%).

The Group's net borrowing comprises long term borrowing, short term borrowing and liquid treasury assets and cash. Original long term borrowing of £1.6 billion, which is unsecured and primarily raised from the public issue of debt under the notes issuance programme, has been swapped to give a predominantly fixed rate position. Of the original long term borrowing, £197 million is repayable in 2003, with £754 million in 2006 and 2007 and £600 million in 2023 or later. Short term borrowing of £196 million is outweighed by cash and liquid treasury assets of £811 million.

At the balance sheet date, the Group had committed and undrawn borrowing facilities amounting to £634 million.

The Group continues to meet very comfortably the capital adequacy ratios set by the Financial Services Authority, in its role as supervisor of 3i Group plc's status as a deposit taker.

Pension Pension costs have been accounted for on the basis of SSAP 24. The charge for the year to 31 March 2003 to Group profits in respect of the main defined benefit scheme, the 3i Group Pension Plan ("the Plan") was £12 million (March 2002: £13 million), based on the triennial actuarial valuation at 30 June 2001. If the SSAP 24 charge continues to be based on the 30 June 2001 valuation, the charge for the year to 31 March 2004 would be £12 million. Details are included in note 11.

The progressive implementation of FRS17 "Accounting for Retirement Benefits" has been accompanied by considerable debate about its suitability as a measure of present and future pension liabilities. Mandatory implementation of FRS 17 in full has been deferred by the Accounting Standards Board. FRS 17 has not been fully implemented in these accounts, but the full effects had it been are disclosed in note 11 on page 48.

Due to substantial falls in stock markets and declines in interest rates used to calculate the present value of liabilities, the FRS17 figures show a significant deterioration during the year to a deficit on the Plan of £90 million (2002: deficit of £14 million). Recognising that in the short term at least, some of the deficit is unlikely to be made up simply by the recovery in asset values, the Group has contributed lump sums over the last two years of £13 million during the year to 31 March 2003 and £22 million during the year to 31 March 2002. It has also recommenced making monthly contributions with effect from 1 April 2002 which have amounted to £12 million in the current year. Total contributions in the year to 31 March 2003 were £25 million (2002: £22 million).

Changes have been made to the Plan which require existing members to contribute 1% of salary from 1 January 2003, increasing by 1% each year to 5% by 1 January 2007.

New employees joining 3i and the Plan after 1 September 2002 are required to contribute 5% of salary. At 31 March 2003, 578 employees were members of the Plan.

Our policy on pensions continues to be under active review in the light of changes in tax legislation and accounting and because funding deficits have arisen from the fall in capital markets.

Regulation of the Group 3i Group plc and relevant subsidiaries continue to be regulated by the Financial Services Authority.

Risk management 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 Pacific. However, the majority of the portfolio 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 Asia Pacific, which may have 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 to 31 March 2003.

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

The main funding risks faced by the Group 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's policy for exchange rate risk management is not generally to hedge its overall portfolio in continental Europe or the US. In line with its funding policy, part of those assets are funded by borrowings in local currency and, as a result, a partial hedge exists. 3i's largest exposure is £0.7 billion in respect of net assets denominated in euros in continental Europe. The level of exposure to exchange rate risk is reviewed on a periodic basis.

Day to day management of treasury activities is delegated to executive Directors and the Group Treasurer. Regular reports on the Group'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 the Group, or to the Group'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 product area and geography. Within this framework, 3i invests in all sectors of the economy, except those, such as property, where the opportunity to invest in venture capital 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 the Group'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 mid-market price at the balance sheet date. About 44% of the unquoted equity portfolio is valued using stock market price-earnings ratios 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, Group 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 our 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.

Summary Net asset value per share has fallen, mainly due to the fall in stock markets and the reduction in the valuation of the early stage technology portfolio which at the balance sheet date represented 15% of the total portfolio. 3i did, however, experience a smaller fall in net asset value than its stock market benchmarks.

3i continues to have the financial capacity to increase investment should economic and market opportunities improve.

Michael Queen

Michael Queen
Finance Director
14 May 2003

Board of Directors

01 **Baroness Hogg**
Non-executive Chairman since January 2002 and a non-executive Director since 1997. Chairman of the Nominations Committee and the Valuations Committee and a member of the Remuneration Committee. Chairman of Frontier Economics Limited. A director of GKN plc, Carnival Corporation and Carnival plc. A Governor of the BBC. Formerly Chairman of Foreign & Colonial Smaller Companies PLC and director of The Energy Group plc, Martin Currie Portfolio Investment Trust plc, National Provident Institution and Scottish Eastern Investment Trust plc. Head of the Prime Minister's Policy Unit from 1990 to 1995. Aged 57.

02 **Oliver Stocken**
Non-executive Deputy Chairman since January 2002, Senior Independent Director since July 2002 and a non-executive Director since 1999. Chairman of the Audit and Compliance Committee and of the trustees of the 3i Group Pension Plan. A member of the Nominations Committee, the Remuneration Committee and the Valuations Committee. Chairman of Rutland Trust plc. A director of GUS plc, Pilkington plc, The Rank Group plc, Novar plc and Stanhope plc. Formerly Finance Director of Barclays plc. Aged 61.

03 **Brian Larcombe**
Chief Executive since 1997 and an executive Director since 1992. A member of the Nominations Committee and the Valuations Committee. Joined 3i plc in 1974 becoming a Local Director in 1982 and a Regional Director in 1988. Appointed Finance Director and to the Executive Committee in 1992. A non-executive director of Smith & Nephew plc. Past Chairman of the British Venture Capital Association. Aged 49.

04 **Dr John Forrest CBE FREng**
Non-executive Director since 1997. Chairman of the Remuneration Committee and a member of the Audit and Compliance Committee, the Nominations Committee and the Valuations Committee. Chairman of the UK Government Spectrum Management Advisory Group. Formerly Chief Executive of NTL, Technical Director of Marconi Defence Systems Limited and Professor of Electronic Engineering at University College, London. Aged 60.

05 **Martin Gagen ACA**
Executive Director since 1997, responsible for US and Asia Pacific investment. Joined 3i plc in 1983 becoming a Local Director in 1990. Appointed to the Executive Committee in 1995 with joint responsibility for UK investment. Formerly a member of the British Venture Capital Association Council. Aged 47.


01 **Baroness Hogg**


02 **Oliver Stocken**


03 **Brian Larcombe**


06 **Christine Morin-Postel**


07 **Rod Perry**


10 **Fred Steingraber**


11 **Tony Brierley**

06 **Christine Morin-Postel**
Non-executive Director since September 2002. A member of the Audit and Compliance Committee and the Nominations Committee. Formerly Chief Executive of Société Générale de Belgique and executive Vice-President and member of the Executive Committee of Suez. A director of Tractebel, Société Générale de Belgique and Arlington Capital Investors (Europe). Aged 56.

07 **Rod Perry CEng MIEE**
Executive Director since 1999, responsible for group services and technology activities worldwide. Joined 3i plc in 1985 as an Industrial Adviser and became Head of Information Systems in 1989. Appointed to the Executive Committee in 1996. Aged 58.

08 **Michael Queen FCA**
Executive Director since 1997, responsible for finance and a member of the Valuations Committee. Joined 3i plc in 1987 becoming a Local Director in 1990 and Group Financial Controller in 1996. Appointed to the Executive Committee in 1997. Past Chairman of the British Venture Capital Association. Aged 41.

09 **Danny Rosenkranz**
Non-executive Director since 2000 and a member of the Audit and Compliance Committee, the Nominations Committee and the Remuneration Committee. Chairman of Foseco (Jersey) Limited and Pecaso Limited. Formerly Chief Executive of The BOC Group plc. Aged 57.

10 **Fred Steingraber**
Non-executive Director since January 2002 and a member of the Nominations Committee. A director of Maytag Corporation and John Hancock Financial Trends Fund and a member of the supervisory board of Continental AG. Formerly Chairman and Chief Executive of AT Kearney, Inc and a director of Lawter International, Inc and Mercury Finance, Inc. Aged 64.

Other members of Executive Committee

11 **Tony Brierley**
Company Secretary since 1996, responsible for the Group's legal, compliance, internal audit and company secretarial functions. Chairman of the Corporate Social Responsibility Committee. Joined 3i plc in 1983 becoming joint head of Legal department in 1990 and Deputy Company Secretary in 1994. Appointed to the Executive Committee in 1996. Aged 53.

12 **Chris Rowlands**
A member of the Executive Committee since September 2002, responsible for European investment and growth capital investment worldwide. Joined 3i plc in 2002 having previously been employed by 3i plc from 1984 to 1996, becoming a Local Director in 1988 and a Regional Director in 1995. Formerly a Partner of Andersen. Aged 46.

13 **Jonathan Russell**
A member of the Executive Committee since 1999, responsible for buy-out investment worldwide. Joined 3i plc in 1986 becoming a Local Director in 1992 and a Regional Director in 1998. Chairman of the European Private Equity and Venture Capital Association Buy-out Committee. Aged 43.

14 **Paul Waller**
A member of the Executive Committee since 1999, responsible for European investment and fund management. Joined 3i plc in 1978 becoming a Local Director in 1983. Became a Regional Director in 1988 and took international responsibilities in 1990. Past Chairman of the European Venture Capital Association. Aged 48.


04 **Dr John Forrest**


05 **Martin Gagen**


08 **Michael Queen**


09 **Danny Rosenkranz**


12 **Chris Rowlands**


13 **Jonathan Russell**


14 **Paul Waller**

Corporate Social Responsibility report

Philosophy and approach 3i is an international business operating in 14 countries with fewer than 900 employees worldwide. 3i aims to conduct its business in a socially responsible manner. It is committed to being a responsible member of the communities in which it operates and recognises the mutual benefits of engaging and building relationships with those communities. 3i believes that respect for human rights is central to good corporate citizenship. In everything 3i does it aims to be commercial and fair, to maintain its integrity and professionalism and to respect the needs of shareholders, staff, suppliers, the local community and the businesses in which it invests.

3i endeavours to comply with the laws, regulations and rules applicable to its business and to conduct its business in accordance with established best practice in each of the countries in which it operates. Environmental, ethical and social responsibility issues and standards are also taken into consideration in all aspects of the business.

3i aims to be a responsible employer and has adopted corporate values and standards designed to help guide its employees in their conduct and business relationships. These values and standards are an integral part of 3i's culture.

Responsibilities and accountabilities The Board as a whole is responsible for ethical standards. The executive Directors are responsible for ensuring compliance with 3i's corporate values and standards.

A management committee, the Corporate Social Responsibility Committee (the "CSR Committee"), comprising Tony Brierley, Company Secretary and Chairman of the Committee, Patrick Dunne, Group Communications Director, Charles Richardson, Managing Director, Small and Medium Investments, and Liz Hewitt, 3i plc Director and currently on secondment to the Department of Trade and Industry, considers and reviews environmental, ethical and social issues relevant to 3i's business and associated risks. It also monitors the operation, and reviews breaches, of 3i's corporate responsibility policies and procedures.

Tony Brierley has specific responsibility for 3i's environmental policies, leading the development of new policies and targets and reporting to the Board.

The CSR Committee, on behalf of the Board, identifies and assesses the significant risks and opportunities for 3i arising from social, ethical and environmental issues. A risk matrix methodology is used to identify new risks, monitor developing trends and best practice and consider changes in 3i's business and culture. This risk matrix is reviewed and updated at each meeting of the Committee and significant risks are reported to 3i's Risk Committee, whose work is set out in more detail on page 28 of the Directors' report.

The CSR Committee reports regularly to the Board. During the year, the Board considered a presentation on significant social, ethical and environmental issues for the Group. Training for Directors on corporate

Royal Academy of Music

Since 1991, 3i has been pleased to support the Royal Academy of Music, sponsoring student scholarships and the Sinfonia Orchestra. Unlike other leading international music schools, the Academy relies on voluntary funding for all student scholarships. We were proud to be lead sponsor of a concert given by Sir Elton John in December 2002, at which over £750,000 was raised.

Pyrenees trek

In July 2002, 3i's Barcelona office organised a sponsored trek which involved climbing two peaks of around 3,400 metres in the Maladeta Nature Park in the Pyrenees mountains in northern Spain. Four of 3i's staff in Barcelona together with four local advisers raised £3,600 to help re-equip the SOS Children's Village, a children's home in the Spanish town of Sant Feliu de Codines.

responsibility issues is provided through this system of regular reporting and by presentations on relevant corporate responsibility issues.

A programme of presentations and discussions across the business and regular articles in 3i's staff magazine are being used to raise awareness of corporate responsibility issues, to stimulate debate and provide employee training.

All employees have a responsibility to be aware of, and abide by, 3i's environmental, ethical and social policies and procedures. Employees are encouraged to make suggestions to improve processes and procedures, particularly those which lessen the impact of 3i on the environment.

Social responsibility as an investor

Investment policy 3i has a portfolio of investments in over 2,000 businesses in Europe, Asia Pacific and the United States. As an investor, corporate governance is a priority and account is taken of environmental, ethical and social issues when making investment decisions. 3i believes it is important to invest in companies whose managers act responsibly on environmental, ethical and social matters.

3i aims to invest in companies which:

- respect human rights;
- comply with current environmental, ethical and social legislation;
- have proposals to address defined future legislation;
- seek to comply with their industry standards and best practice.

3i recognises that the most significant risks to its short and long term value from environmental, ethical and social matters arise from its investment business. For example, if a company in which 3i has an investment acted irresponsibly on corporate responsibility issues, this might affect the monetary value of that investment and, as a shareholder in that investment, raise reputational issues for 3i. As an investor, 3i has the opportunity to influence the behaviour of the companies in which it has an investment and encourages the development and adoption of good corporate governance. This is achieved through the training of non-executive Directors who are appointed to sit on investee company boards and the raising of awareness within investee companies of social, environmental and ethical issues. However, as an investor in unquoted businesses, 3i does not have day-to-day operational control over these businesses.

3i has clear procedures to reduce the risks of 3i investing in businesses which operate in an environmentally, ethically or socially unacceptable manner. Where, after an investment has been made, 3i becomes aware that an investee company is not operating in an acceptable way, 3i will seek to use its influence to encourage improvement. Where that is not possible, 3i will seek to divest itself of the investment.

Social responsibility as an employer

Employment 3i's staff are fundamental to the success of its business. Accordingly, one of 3i's core values is to respect its staff and their needs.

Employees are organised in small teams and an environment of co-operation is encouraged to ensure the highest standards of integrity and professionalism.

In accordance with 3i's core values, individual consultation with employees on matters affecting them, and fair and open communication, are a high priority. Periodically, internal communication surveys of employees are conducted for 3i by independent researchers. The September 2002 survey, conducted on 3i's behalf by MORI, disclosed that 66% of the 251 randomly selected employees interviewed were satisfied with 3i's internal communications and 70% felt informed about 3i. 85% spoke highly of 3i and indicated they would advocate 3i as an employer. The advocacy of 3i result compares favourably with MORI's best practice norm of 67%, being the average of the best ten scores for a particular question. Improving internal communication continues to be a priority.

3i's employment policies are described in more detail in the Directors' report on page 27.

Health and safety 3i recognises that the promotion of health and safety at work is an essential function of staff and management at all levels. In an endeavour to achieve high standards, appropriate policies and procedures have been put in place. These policies and procedures are the responsibility of Rod Perry, a Director of 3i Group plc.

The purpose of 3i's health and safety policy is to enable all members of 3i's staff to go about their everyday business at 3i's offices in the expectation that they can do so safely and without risk to their health. 3i imposes rigorous standards on its staff and sub-contractors and endeavours to ensure that the health, safety and welfare of its employees, visitors, customers, sub-contractors' staff and the general public are not compromised.

3i aims to have no reportable accidents or incidents. During the year to 31 March 2003, no reportable accidents or incidents occurred under UK Health and Safety regulations and no reportable accidents or incidents occurred under similar regulations outside the UK.

Social responsibility to the communities in which 3i operates

Charitable and community support 3i's charitable policy aims to support:

- Causes based in the communities in which 3i has offices.
- Staff who participate in charitable activities. 3i matches donations made by UK staff under the Give as You Earn scheme ("GAYE") and the proceeds of staff fundraising efforts. In the period from May 2001 to April 2002, 3i was ranked top payroll giving employer by staff participation and 19th payroll giving employer by donation (source: The Giving Campaign). In the year to 31 March 2003, approximately 42% of 3i's charitable donations were matching GAYE donations.
- Charities relevant to its corporate activity.

businessdynamics

3i was pleased to continue its long standing support for businessdynamics, which aims to "bring business to life for students, primarily by delivering programmes, in schools and colleges. These inform and inspire young people, aged 14-19 years, about the opportunities and challenges of business". During 2002, these business awareness programmes reached 33,000 students (source: Annual Review).

Charitable donations made in the year to 31 March 2003 amounted to £209,972, supporting over 100 different charities with donations ranging from £21 to £25,000. 3i supports businessdynamics, a charity which aims to help young people understand business. 3i also has a long running association with the Royal Academy of Music, sponsoring the Sinfonia Orchestra. During the year, 3i also supported The DePaul Trust, a charity which provides help for homeless and disadvantaged people in a number of British cities in which 3i has offices.

The environment As a financial services business employing fewer than 900 employees worldwide, 3i's direct environmental impact is relatively low. The Group measures its own energy and resource usage where practicable and sets targets to achieve improvement. The principal benchmarks against which the Group measures its performance are for:

- CO_2 emissions; and
- recycling of paper and other materials.

The Group also assesses the environmental standards of its suppliers, through its procurement policy.

Performance and measurement
To assist it in benchmarking 3i's corporate responsibility performance, the CSR Committee has had informal discussions with other companies and specialists in this area. The Committee has monitored the implementation of corporate responsibility investment procedures, implemented appropriate risk management procedures and set strategic objectives for corporate responsibility.

The CSR Committee measures 3i's performance against two indices:

- The Dow Jones Sustainability World Index ("DJSI"), a global index which tracks the financial performance of leading companies in terms of corporate sustainability; and
- Business in the Community Corporate Responsibility Index ("BitC Index"), an index which aims to benchmark environmental, ethical and social performance and encourage sustainable development.

3i has again been selected as a constituent of the DJSI during the year and was placed in the top half of its industry group on a global basis. 3i's overall sustainability performance was described as very good (source: SAM Research Inc.). 3i aims to continue to be included within this index and to maintain its position in the next DJSI assessment.

3i participated in the first annual BitC Corporate Responsibility Index, one of only 53 FTSE 100 companies and the only investment company to participate in the Index. 3i's management profile was B, a company moving beyond a basic commitment. The results of the BitC Index have been considered by the CSR Committee and a number of actions are being taken with the objective of improving 3i's performance in this Index in the future.

During the year, 3i commissioned an external management consultancy, ERM, to conduct a review of corporate responsibility at 3i. As a result of that review, a number of recommendations relating to procedures, communication and training are being implemented.

Each of 3i's business unit and department heads is required to confirm on an annual basis that their operating procedures, including investment procedures, are consistent with 3i's standards and controls and that these procedures are operating in practice.

3i's performance management appraisal process reviews the performance of individual members of staff against agreed objectives and the knowledge, skills and behaviours expected by 3i. This process includes 360 degree feedback for all employees.

3i's offices are the subject of health and safety audits to ensure high standards are adopted on a consistent basis worldwide.

Audit and verification The CSR Committee has an ongoing role of monitoring the operation of 3i's corporate responsibility policies and procedures. The identification and management of corporate responsibility risks is integral to the ongoing operational processes of 3i's business units and functions. In addition, 3i's internal audit function carries out periodic reviews of risks and related controls in this area. The Committee may also supplement internal review processes with external reviews where necessary. The Committee is not aware of any material breaches of the Company's policies and procedures for managing risks from corporate responsibility issues.

The disclosures in this Corporate Social Responsibility report are the subject of an internal verification process. This process requires every statement made in this report to be verified.

Directors' report

Principal activity 3i Group plc is Europe's leading venture capital company. The principal activity of the Company and its subsidiaries ("the Group") is investment. It invests in a wide range of growing independent businesses. Its objective is to maximise shareholder value through growth in total return.

Tax and investment company status The Company is an investment company as defined by section 266 of the Companies Act 1985 and carries on business as an investment trust.

The Inland Revenue has approved the Company as an investment trust under section 842 of the Income and Corporation Taxes Act 1988 for the financial period ended 31 March 2002. Since that date the Company has directed its affairs so as to enable it to continue to be so approved.

Regulation The Company is an authorised deposit taker regulated by the Financial Services Authority.

3i Investments plc and 3i Japan GP Limited, both wholly owned subsidiaries of the Company, are authorised persons under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority.

Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated by relevant authorities.

Results and dividends The accounts of the Company and the Group for the year to 31 March 2003 appear on pages 39 to 66.

Consolidated total return for the period was a negative sum of £935 million (2002: negative sum of £960 million).

An interim dividend of 4.9p per share was paid on 8 January 2003. The Directors recommend a final dividend of 8.6p per share be paid in respect of the year to 31 March 2003 to shareholders on the register at the close of business on 20 June 2003.

By a deed of waiver dated 9 June 1994, Mourant & Co. Trustees Limited as trustee of The 3i Group Employee Trust waived (subject to certain minor exceptions) all dividends declared by the Company after 26 May 1994 in respect of shares from time to time held by it (currently 8,173,810 shares) as trustee of that trust.

Operations The Company owns substantially all the Group's investments. The Group operates through a network of 31 offices across Europe, Asia Pacific and the US.

The Group manages a number of funds established with major institutions and pension funds to make equity and equity related investments in unquoted businesses in Europe and Asia Pacific.

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. 3i Investments plc also acts as investment manager to 3i Smaller Quoted Companies Trust plc, 3i Bioscience Investment Trust plc and 3i European Technology Trust plc, investment trusts listed on the London Stock Exchange. 3i Investments plc also manages the 3i Group Pension Plan.

Business review The Chairman's statement on pages 2 and 3, the Chief Executive's statement on pages 4 and 5, the Operating review on pages 6 to 13 and the Financial review on pages 14 to 19 report on the Group's development during the year to 31 March 2003, its position at that date and the Group's likely future development.

Share capital In the year to 31 March 2003, the issued share capital of the Company increased by 1,314,425 shares to 610,918,253 shares as a result of the issue of shares to the trustee of The 3i Group Share Incentive Plan, the exercise of options under The 3i Executive Share Option Plan, The 3i Group 1994 Executive Share Option Plan and The 3i Group Sharesave Scheme and the issue of shares to the nine vendors of SFK Finance Oy. Details of these share issues are provided in note 39 to the accounts on page 62.

Major interests in shares As at 2 May 2003, the Company had been notified of the following interests in the Company's shares in accordance with sections 198 to 208 of the Companies Act 1985:

	%	Number of shares
FMR Corporation and Fidelity International Limited and their subsidiary companies	9.79	59,828,417
Prudential plc and subsidiary companies	5.17	31,613,446
Legal & General Investments Management Limited	3.42	20,914,010
Scottish Widows Investment Partnership Limited	2.98	18,215,747

Directors and their interests The names of the present Directors are set out on pages 20 and 21. Save for Lord Camoys who ceased to be a Director on 10 July 2002, Mme C J M Morin-Postel who was appointed as a Director on 12 September 2002 and Dr R D M J Summers and Mr P B G Williams who ceased to be Directors on 31 December 2002, all the Directors served throughout the period under review.

Having been appointed as a Director since the Annual General Meeting held in 2002, Mme C J M Morin-Postel retires in accordance with the Articles of Association and, being eligible, offers herself for reappointment. In accordance with the Articles of Association Mr M M Gagen, Mr M J Queen and Mr F D Rosenkranz retire by rotation and, being eligible, offer themselves for reappointment.

Details of the Directors' interests in the Company's shares are shown in note 39 to the accounts on page 62.

Save as shown in note 39 on page 62, no Director had any disclosable interest in the shares, debentures or loan stock of the Company or in the shares, debentures or loan stock of its subsidiaries during the period. Save as shown in note 39 on page 62 there have been no changes in the above interests between 31 March 2003 and 2 May 2003. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' service contracts Details of Directors' employment contracts are set out in the Remuneration report on page 35.

Management arrangements 3i plc provides the Group with certain corporate and administrative services, for which no regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services. The contract between 3i plc and 3i Investments plc may be terminated by either party on three months' notice. The contracts between 3i plc and other Group companies may be terminated by either party on reasonable notice.

3i Investments plc provides the Group with investment management and other services, for which regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

Corporate governance Throughout the year to 31 March 2003, the Company complied with all the provisions set out in section 1 of the Combined Code on corporate governance ("the Combined Code").

The Company's approach to corporate governance The Company has a policy of seeking to comply with established best practice in the field of corporate governance. In addition, one of the core values communicated within the Group is a belief that the highest standard of integrity is essential in business.

The Board's responsibilities and processes The Board is responsible to shareholders for the overall management of the Group. It determines matters including financial strategy and planning and takes major business decisions. It is assisted by various specialised committees of the Board, all of which have written terms of reference which are reviewed from time to time. Details of the principal Board Committees are set out below. The organisational structure put in place by the Board is further described below under the heading "internal control".

The regular reports and papers received by the Directors before Board and Committee meetings are supplemented by information specifically requested by the Directors from time to time.

Roles of the Chairman and the Chief Executive The division of responsibilities between the Chairman of the Board and the Chief Executive is clearly defined and was reviewed at the appointment of the current Chairman.

The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for organising the business of the Board but has no involvement in the day-to-day business of the Group. The Chairman facilitates the effective contribution of non-executive Directors and constructive relations between executive and non-executive Directors.

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group. The Chief Executive has formed a management committee called Executive Committee to enable him to carry out the responsibilities delegated to him by the Board. The Committee comprises the executive Directors, the Company Secretary, Mr C P Rowlands, Mr J B C Russell and Mr P Waller. The Committee meets on a regular basis to consider operational matters and the implementation of the Group's strategy.

Senior Independent Director On Lord Camoys ceasing to be a Director on 10 July 2002, Mr O H J Stocken was appointed Senior Independent Director, to whom, in accordance with the Combined Code, concerns can be conveyed.

Directors All the non-executive Directors including the Chairman are considered by the Board to be independent for the purposes of the Combined Code. The Board assesses and reviews the independence of each of the non-executive Directors at least annually. The Board has regard to the potential relevance and materiality of a Director's interests and relationships when assessing independence rather than applying rigid criteria in a mechanistic manner.

The varied backgrounds of the non-executive Directors (details of which are set out in the biographies on pages 20 and 21) enable them to bring an independent judgement to bear on the Board's deliberations and help to ensure the continuing effectiveness of the executive Directors and the Group's management.

The Company's Articles of Association provide for:

a) Directors to retire at the first AGM after their appointment and for the number nearest to, but not exceeding, one third of the remaining Directors to retire by rotation at each AGM;

b) all Directors to retire at least every three years as required by the Combined Code; and

c) any Director aged 70 or over at the date of the AGM to retire.

Subject to the Articles of Association, retiring Directors are eligible for reappointment.

The Company has procedures for Directors to take independent professional advice, if necessary. All the Directors have access to the advice and services of the Company Secretary, the appointment or removal of whom is a matter for the full Board.

The Board's Committees The Board has established a number of Committees to assist it in fulfilling its responsibilities.

Details of the work and composition of the Audit and Compliance Committee are set out below under the heading "internal control".

The Valuations Committee consists of Baroness Hogg (Chairman), Dr J R Forrest, Mr B P Larcombe, Mr M J Queen and Mr O H J Stocken. The Committee considers and recommends to the Board the valuations of the Group's investments to be included in the interim and final accounts of the Group. The Committee met twice during the year.

Details of the work and composition of the Remuneration Committee are set out in the Remuneration report.

The Nominations Committee consists of Baroness Hogg (Chairman), Dr J R Forrest, Mr B P Larcombe, Mme C J M Morin-Postel, Mr F D Rosenkranz, Mr F G Steingraber and Mr O H J Stocken. The Committee met four times during the year. At the request of the Board, the Committee considers and makes recommendations to the Board on the appointment of Directors and proposes which non-executive Directors should be invited to retire, having regard to the changing needs of the Board as a whole from time to time.

The size and composition of the Board and the balance of its membership as between executive and non-executive Directors is regularly reviewed by the Nominations Committee and the Board. A formal and transparent process for the appointment of Directors has been established with the objective of identifying the skill and experience profile required of new Directors and identifying suitable candidates.

The Committee is supported by specialist recruitment consultants, to identify suitable candidates for appointment as non-executive Directors, where appropriate.

Directors' training and development The Company has developed a training programme, which provides a framework within which training for new Directors can be planned. Newly appointed Directors are offered relevant training on the responsibilities of directors of a listed company.

On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment offices and support departments. The non-executive Directors are encouraged to let either the Chairman or the Company Secretary know if there are any particular individuals in the Company they would like to meet or if there are any areas of the Company's business in which they are particularly interested. Presentations on different aspects of the Company's business are made regularly to Directors.

Board effectiveness The Board has established a process led by the Chairman with the assistance of the Senior Independent Director for evaluating on an annual basis the performance of the Board, its Committees and individual Directors with particular attention to those who are due for re-appointment. The results of the Board evaluation process are shared with the Board as a whole.

The Company's relationship with its shareholders The Company recognises the importance of maintaining a purposeful relationship with all its shareholders. The Company uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are made by the Chief Executive and the Finance Director. The Chairmen of the Remuneration, Audit and Compliance and Nominations Committees are available to answer shareholders' questions.

The Chief Executive and the Finance Director, together with the Group Communications Director, meet with the Company's principal institutional shareholders to discuss relevant issues as they arise. The Chairman ensures that regular reports are received by the non-executive Directors from the Company's brokers with the objective of ensuring that non-executive Directors remain aware of shareholders' views. The Chairman also maintains a dialogue with shareholders as required.

In accordance with the Combined Code, the Notice of the 2002 AGM was dispatched to shareholders not less than 20 working days before the meeting. At that meeting, details of proxy votes received were made available in accordance with the recommendations of the Combined Code. In accordance with the Company's Articles of Association, on a poll, every member who is present in person or by proxy has one vote for each share held.

Portfolio management and voting policy In relation to unquoted investments, the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts. In relation to quoted investments, the Group's policy is to exercise voting rights on matters affecting the interests of the Group and its managed funds.

Employment The Group's policy is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of gender, ethnic origin, religion and whether disabled or otherwise.

The Group treats applicants and employees with disabilities equally and fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Should an employee become disabled during their employment, efforts are made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within the Group. The Group also provides financial support, through a Company Disability Scheme, to disabled employees who are unable to work.

The Group's principal means of keeping in touch with the views of its employees are through employee appraisals, informal consultations and regular staff surveys. These processes have been maintained and are undergoing further development. Managers throughout the Group have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

3i has clear grievance and disciplinary procedures in place, which include comprehensive procedures on discrimination and 3i's equal opportunities policy. 3i also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all staff and their families in the UK.

There are clearly defined staff policies for pay and working conditions.

3i's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the cost element of these rewards remains at an appropriate level. Remuneration policy is reviewed by the Remuneration Committee of the Board.

All UK employees receive a base salary and are eligible for a performance related bonus. 3i operates an Inland Revenue approved Share Investment Plan to encourage employees' involvement in the performance of the Group and also operates share plans for senior executives and investment staff. Further details of these plans are set out in the Remuneration report.

In its international operations, 3i's remuneration policy is influenced by market conditions and practices in the countries in which it operates. The overall remuneration package of employees in 3i's non-UK operations is similar in structure to that available to UK employees, except that employees outside the UK (other than expatriate UK employees) do not participate in the 3i Group Pension Plan. Instead they participate in local state or company pension schemes as appropriate to local market conditions.

As at the most recent valuation date, 98% of UK employees were members of the 3i Group Pension Plan (details of which are set out in the Remuneration report).

Executives both in the UK and in 3i's non-UK operations may also participate in "carried interest" schemes, which link executive remuneration to the performance of investments in executives' business units.

Charitable and political donations Charitable donations made by the Group in the year to 31 March 2003 amounted to £209,972. Excluding the Company's matching of Give As You Earn contributions by staff, approximately 22% of those charitable donations were to charities which advance education, approximately 55% went to causes which aim to relieve poverty or benefit the community, or both, and approximately 23% went to medical charities. Further details of charitable donations are set out in the Corporate Social Responsibility report on pages 22 to 24.

In accordance with the Group's policy of not making donations to political parties, no donations were made to political parties during the year. Under the Companies Act 1985, as amended, the Company is required to disclose particulars of any donation to any EU political organisation and EU political expenditure incurred during the year. During the period, 3i plc, the main trading company of the Group, made payments to three organisations, detailed below, which may fall within the definition of donations to EU political organisations. These payments (annual subscriptions to the Industry Forum of £2,938 and the Enterprise Forum of £1,880 and corporate membership of the European Business Network of £1,040) amounted to £5,858.

Policy for paying creditors The Group's policy is to pay creditors in accordance with the CBI Prompt Payers Code of Good Practice copies of which can be obtained from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London WC1A 1DU. The Company had no trade creditors during the year. 3i plc, the main trading company of the Group, had trade creditors outstanding at the year end representing 10 days of purchases.

Statement of Directors' responsibilities The Directors are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the Company and the Group as at the end of the period and of the profit for the period. The Directors have responsibility for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the Group and enable them to ensure that the accounts comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Suitable accounting policies, which follow generally accepted accounting practice and are explained in the notes to the accounts, have been applied consistently and applicable accounting standards have been followed. In addition, reasonable and prudent judgements and estimates have been used in the preparation of the accounts.

Going concern The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the "going concern" basis for preparing the accounts.

Internal control The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The full Board meets regularly and has formally adopted a schedule of matters which are required to be brought to it or its duly authorised Committees for decision. This is aimed at maintaining full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Each year the Board considers and approves a rolling strategic plan and an annual budget. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

An Audit and Compliance Committee, comprising Mr O H J Stocken (Chairman), Dr J R Forrest, Mme C J M Morin-Postel and Mr F D Rosenkranz, all independent non-executive Directors, reviews the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements. During the year the Committee met four times. The Committee receives regular reports from the internal and external auditors, the regulatory compliance function and Risk Committee and monitors their activities and effectiveness.

The Committee reviews the interim and annual accounts of the Company before their approval by the Board and reviews the scope of the annual audit and any audit findings. The Committee also oversees the Company's relations with its external auditors and recommends to the Board the appointment of the Company's auditors and approves the terms of their engagement.

Risk Committee is a management committee formed by the Chief Executive whose purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year ended 31 March 2003 and up to the date of this report. The process is regularly reviewed by the Board and complies with the internal control guidance for Directors on the Combined Code, issued by the Turnbull Committee. The process established for the Group includes:

Policies

- Core values, Group standards and Group controls together comprising the Group's high level principles and controls, with which all staff are expected to comply.
- Manuals of policies and procedures, applicable to all business units, with procedures for reporting weaknesses and for monitoring corrective action.
- A code of business conduct, with procedures for reporting compliance therewith.

Processes

- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities.
- A planning framework which incorporates a Board approved rolling Strategic Plan, with objectives for each business unit.
- Formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas, set control, mitigation and monitoring procedures and review actual occurrences identifying lessons to be learnt.
- A comprehensive system of financial reporting to the Board, based on an annual budget with monthly reports against actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting.
- Regular treasury reports to the Board, which analyse the funding requirements of each class of assets, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to interest and exchange rate movements and record the level of compliance with the Group's funding objectives.
- A compliance department whose role is to integrate regulatory compliance procedures into the Group's systems.
- Well defined procedures governing the appraisal and approval of investments including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post investment reviews.

Verification

- An internal audit department which undertakes periodic examination of business units and processes and recommends improvements in controls to management.
- The external auditors who are engaged to express an opinion on the annual accounts.
- An Audit and Compliance Committee which considers significant control matters and receives reports from the internal and external auditors and the regulatory compliance function on a regular basis.

The internal control system is monitored and supported by an internal audit function which operates on an international basis and reports to management and the Audit and Compliance Committee on the Group's operations. The work of the internal auditors is focused on the areas of greatest risk to the Group determined on the basis of the Group's risk management process. The external auditors independently and objectively review the approach of management to reporting operating results and financial condition. In co-ordination with the internal auditors, they also review and test the system of internal financial control and the information contained in the Report and accounts to the extent necessary for expressing their opinion.

Auditors' independence and objectivity Subject to annual appointment by shareholders, auditor performance is monitored on an ongoing basis and formally reviewed every five years, the next review being scheduled for 2003. The Audit and Compliance Committee recognises the importance of ensuring the independence and objectivity of the Company's auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees. Safeguards have been put in place to reduce the likelihood of compromising auditor independence, including the following principles which are applied in respect of services provided by the auditors and other accounting firms and monitored by the Audit and Compliance Committee:

- Services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors.
- Services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records, for example, corporate tax services. This work is normally allocated to the auditors subject to consideration of any impact on their independence.
- Services that could be provided by a number of firms including general consultancy work. All significant consultancy projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team. Other services under this category include due diligence within the investment process. If this service were to be provided by the auditors, the specific team engaged would be independent of the audit team.

Details of the fees paid to the auditors are disclosed in note 13 to the accounts on page 50.

Auditors In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of Ernst & Young LLP as the Company's auditors will be put to members at the forthcoming Annual General Meeting.

By order of the Board

A W W Brierley
Secretary

14 May 2003

Registered Office
91 Waterloo Road
London SE1 8XP

Remuneration report

Introduction Although 3i is a constituent of the FTSE 100 Index, its business operates exclusively within the venture capital sector. The majority of the Company's competitors comprise either partnerships of individuals managing funds for investment on behalf of third parties or unquoted subsidiaries of larger banking or financial services groups. Whilst the environment in financial markets has been tough, the venture capital market has continued to be well funded and, despite falling investment returns, competitor organisations have been able to offer substantial rewards for their staff and competition for quality, trained executives remains aggressive. In addition to cash bonuses, remuneration structures in the venture capital market include share plans as well as carried interest or co-investment schemes, which allow executives to share directly in the future profits on investments subject normally to a variety of conditions relating to the performance of those investments.

It is against this challenging background that the Company's Remuneration Committee ("the Committee") has had to formulate and implement its remuneration policy to ensure that the Company is able to continue to attract, retain and motivate management of the quality required to ensure the continued vibrancy and success of the business as a whole. The Committee is also conscious of the need to align the interests of staff and shareholders. One of the ways in which this is achieved is by encouraging the holding of the Company's shares by its staff. The Company's policy has therefore been to provide long term incentives to its executives through share plans and, where appropriate, carried interest schemes. At 31 March 2003 over 75% of the Company's UK staff were shareholders.

Remuneration Committee

Composition and terms of reference The Committee consists only of independent non-executive Directors. Its members throughout the year to 31 March 2003 ("the year") were Dr J R Forrest (the Committee Chairman), Baroness Hogg, Mr F D Rosenkranz and Mr O H J Stocken. None of the members of the Committee sits with any other Director on the board of any other quoted company. The Committee's terms of reference take into account the provisions of the Combined Code on corporate governance.

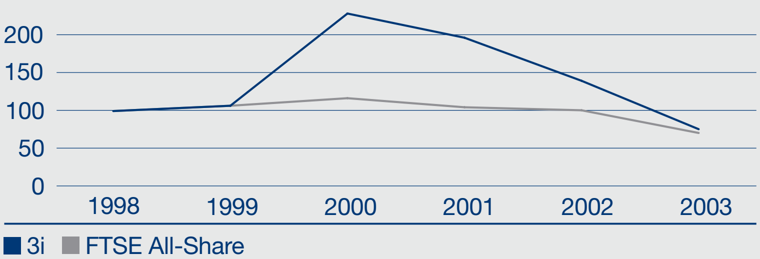
Activities during the year The Committee met six times during the year to consider remuneration policy and to determine, on behalf of the Board, the specific remuneration packages for each of the executive Directors. In addition, the Committee considered and made recommendations to the Board on the Company's framework of executive remuneration and its costs.

Assistance to the Committee Persons who materially assisted the Committee with advice on Directors' remuneration in the year were: Monks Partnership, an external remuneration consultant appointed by the Committee, the Group's Human Resources Director, Mr R B Gregory and (except in relation to his own remuneration) the Chief Executive, Mr B P Larcombe. Mr Gregory was not appointed by the Committee. Monks Partnership is part of PricewaterhouseCoopers LLP. During the year, PricewaterhouseCoopers LLP provided the Group's investment business with taxation, payroll and corporate restructuring advice, due diligence services and the services of an employee on secondment.

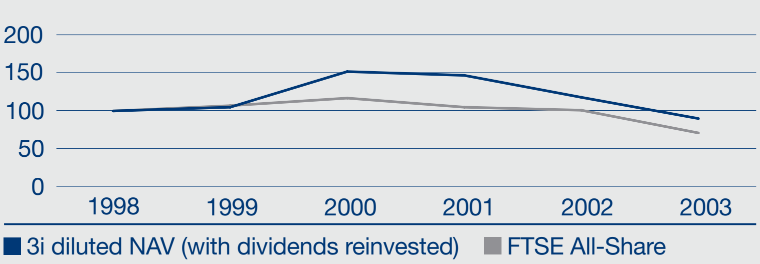
Performance graphs The left hand graph below compares the Company's total shareholder return for the five financial years of the Company to 31 March 2003 with the total shareholder return of the FTSE All-Share Index. The Directors consider that since the Company invests in a broad range of industrial and commercial sectors the FTSE All-Share Index is the most appropriate index against which to compare the Company's performance.

The right hand graph below compares the diluted net asset value per share at each of the last five financial year ends (with dividends reinvested) against the total shareholder return of the FTSE All-Share Index on those dates. This has been included because changes in net asset value per share relative to the FTSE All-Share Index are an important indicator of the performance of the Company's assets.

3i total shareholder return versus FTSE All-Share total return (cumulative) years ended 31 March



3i diluted NAV versus FTSE All-Share total return (cumulative) years ended 31 March



Audit The tables in this report have been audited by Ernst & Young LLP.

Directors' remuneration policy
Non-executive Directors The Board's policy for the current financial year in relation to non-executive Directors (including the Chairman) continues to be to pay fees which are competitive with the fees paid by other FTSE 100 companies. Non-executive Directors' fees are determined by the Board as a whole, within the limits set by the Company's Articles of Association, having taken advice from Monks Partnership. Non-executive Directors' remuneration was restructured with effect from 1 April 2002 by reducing the annual fees for Committee membership (from £5,000 to £3,500) and increasing the annual fees for Committee Chairmanship (from £4,000 to £7,500) and Board membership (from £25,000 to £30,000). No changes were made with effect from 1 April 2003. Non-executive Directors are not eligible for bonuses, share options, long-term incentives, pensions or performance related remuneration. Details of the non-executive Directors' remuneration for the year are provided in the table on page 32.

The Company does not currently expect its policy on non-executive Directors' remuneration for subsequent financial years to change significantly.

Executive Directors The Board's policy for the current financial year in relation to executive Directors is to pay salaries and benefits sufficient to attract, retain and motivate Directors of the calibre required. The variable elements of each executive Director's remuneration (comprising annual cash bonuses and long-term incentives) are intended to form a significant component of the executive Director's total remuneration package. In particular, the salaries of the executive Directors are intended to represent less than half of the executive Directors' potential rewards with the remainder of the rewards being related to individual and Company performance. The Committee has due regard to competitive market data in relation to similar jobs in comparable organisations including other FTSE 100 companies and companies in the financial services sector. The Company's policy is also influenced by remuneration practice in the venture capital sector. The Committee is sensitive to wider issues including pay and employment conditions elsewhere in the Group when setting executive Directors' pay levels and takes into account the Company's reward strategy generally, before deciding specific packages for the executive Directors. The executive Directors' performance related compensation is designed to encourage, where practicable, investment in, and the holding of, shares in the Company so as to align the interests of Directors and shareholders. The Company aims to provide pension benefits which are competitive with other FTSE 100 companies and companies in the financial services sector.

The Company does not currently expect its policy on executive Directors' remuneration for subsequent financial years to change significantly.

Executive Directors' remuneration packages The remuneration packages of the executive Directors consist of the following elements:

Salaries Executive Directors' base salaries are determined by the Committee in accordance with the policy referred to above.

Annual cash bonuses All employees, including executive Directors, are eligible for non-pensionable discretionary annual cash bonuses. Executive Directors' bonuses are determined by the Committee. Bonuses for the year, details of which are set out in the table on page 32, have been determined by the Committee based on achievement against a range of corporate and personal objectives. Corporate objectives for the year ended 31 March 2003 which were considered by the Committee included changes in the Company's net asset value per share compared to the FTSE All-Share Index, total return and levels of revenue, costs and realisations. Personal objectives included clearly defined management targets relating to individual responsibilities.

Long-term incentives The Committee determines the levels of long term incentives granted to executive Directors. The Committee regards the purposes of such awards as being both to align the interests of executives with those of shareholders and also to provide levels of potential reward which make continued employment with the Company attractive in relation to opportunities available elsewhere.

The Group's current long-term incentive arrangements for executive Directors consist of:

(a) The 3i Group Discretionary Share Plan (the "Discretionary Share Plan"); and

(b) US carried interest plans.

The Discretionary Share Plan The Company operates a shareholder approved executive share plan which conforms with the Association of British Insurers' ("ABI") guidelines on dilution limits. Awards under this plan are not pensionable. The level of annual awards is reviewed each year taking account of market practice and the specific circumstances facing the Company. The Committee determines awards to executives based on an assessment of performance. All awards are granted subject to a performance target, the achievement of which will normally be a condition precedent to the exercise of the awards. Careful consideration is given each year to appropriately demanding performance targets.

US carried interest plans At the Annual General Meeting in July 2002, shareholders approved the participation of the executive Director responsible for the Company's US business, currently Mr M M Gagen, in the carried interest plans available to investment executives based in the US. These awards are not pensionable. Details of the awards made to Mr Gagen during the year are set out in the table on page 34.

Directors' remuneration during the year

	Salary and fees £'000	Pay in lieu of notice £'000	Annual cash bonus £'000	Benefits in kind £'000	Total remuneration Year to 31 March 2003 £'000	Total remuneration Year to 31 March 2002 £'000
Executive Directors						
B P Larcombe	578	–	150	1	729	546
M M Gagen	586	–	–	11	597	715
R W Perry	296	–	100	20	416	363
M J Queen	334	–	100	1	435	318
Dr R D M J Summers (retired 31.12.02)	257	231	–	15	503	334
P B G Williams (retired 31.12.02)	242	229	–	1	472	318
Non-executive Directors						
Baroness Hogg (as Deputy Chairman to 31.12.01)	–	–	–	–	–	51
Baroness Hogg (as Chairman from 01.01.02)	220	–	–	–	220	55
O H J Stocken (as Director to 22.01.02)	–	–	–	–	–	30
O H J Stocken (as Deputy Chairman from 23.01.02)	75	–	–	–	75	17
Dr J R Forrest	48	–	–	–	48	40
C J M Morin-Postel (appointed 12.09.02)	18	–	–	–	18	–
F D Rosenkranz	37	–	–	–	37	31
F G Steingraber (appointed 01.01.02)	30	–	–	–	30	6
The Lord Camoys (retired 10.07.02)	9	–	–	–	9	30
Sir George Russell (retired 31.12.01)	–	–	–	–	–	209
Total	2,730	460	350	49	3,589	3,063
Total excluding pay in lieu of notice	2,730		350	49	3,129	3,063

Notes

1 Annual cash bonuses relate to the year to 31 March 2003 and are expected to be paid in July 2003.

2 During the year, Mr M M Gagen was based in the US on an expatriate assignment. Of the salary paid £310,000 was pensionable under the 3i Group Pension Plan and the balance represented expatriate salary supplements and allowances.

3 The non-cash elements of executive Directors' remuneration packages (shown in the column headed "benefits in kind") were company cars and fuel (Mr R W Perry and Dr R D M J Summers), health insurance (all of the executive Directors), life insurance premiums (Mr M M Gagen) and taxation advice (Mr M M Gagen).

4 Following his ceasing to be a Director and during the year Dr R D M J Summers had use of a company car and fuel (estimated monetary value: £4,713). During the year Lord Camoys was given a retirement gift at a cost of £2,000. Mr W J R Govett, a former Director, was paid £5,000 in respect of his directorship of Gardens Pension Trustees Limited, one of the trustees of the 3i Group Pension Plan.

Options to subscribe for shares The table below provides details of executive share options held by the Directors who held office during the year.

	Year of grant	Held at 1 April 2002	Granted during the year	Exercised during the year	Held at 31 March 2003 (or retirement if earlier)	Exercise price £	Date from which exercisable	Expiry date
Executive Directors								
B P Larcombe	1995	18,500		–	18,500	3.34	05.01.98	04.01.05
	1995	20,600		–	20,600	4.23	14.12.98	13.12.05
	1996	98,200		–	98,200	4.50	25.06.99	24.06.06
	1997	99,802		–	99,802	5.20	16.06.00	15.06.07
	1998	72,209		–	72,209	6.64	22.06.01	21.06.08
	1999	*45,654*		–	*45,654*	*7.28*	*06.07.02*	*05.07.09*
	2000	*25,272*		–	*25,272*	*13.75*	*28.06.03*	*27.06.10*
	2001	*192,000*		–	*192,000*	*10.00*	*09.08.04*	*08.08.11*
	2002		*327,015*	–	*327,015*	*6.73*	*27.06.05*	*26.06.12*
		572,237	327,015	–	899,252			
M M Gagen	1993	24,467*		–	24,467*	1.68	30.07.99	29.07.03
	1994	5,000*		–	5,000*	2.72	22.06.00	21.06.04
	1997	91,013		–	91,013	5.20	16.06.00	15.06.07
	1998	30,454		–	30,454	6.64	22.06.01	21.06.08
	1999	*9,006*		–	*9,006*	*7.28*	*06.07.02*	*05.07.09*
	2000	*24,106*		–	*24,106*	*13.56*	*03.07.03*	*02.07.10*
		184,046	–	–	184,046			

Options to subscribe for shares continued

	Year of grant	Held at 1 April 2002	Granted during the year	Exercised during the year	Held at 31 March 2003 (or retirement if earlier)	Exercise price £	Date from which exercisable	Expiry date
R W Perry	1994	14,000*†		–	14,000*†	2.72	22.06.97	21.06.04
	1995	1,600*		–	1,600*	3.61	03.07.98	02.07.05
	1996	38,700*		–	38,700*	4.50	25.06.99	24.06.06
	1997	40,800*		–	40,800*	4.91	06.01.00	05.01.07
	1997	58,378*		–	58,378*	5.12	17.12.00	16.12.07
	1998	29,381*		–	29,381*	5.67	16.12.01	15.12.08
	1999	*10,734**		–	*10,734**	*7.28*	*06.07.02*	*05.07.09*
	2000	*20,294*		–	*20,294*	*13.75*	*28.06.03*	*27.06.10*
	2001	*100,000*		–	*100,000*	*10.00*	*09.08.04*	*08.08.11*
	2002		*145,670*	–	*145,670*	*6.73*	*27.06.05*	*26.06.12*
		313,887	145,670	–	459,557			
M J Queen	1994	4,000*†		–	4,000*†	2.72	22.06.97	21.06.04
	1995	1,800*		–	1,800*	3.61	03.07.98	02.07.05
	1996	40,850*		–	40,850*	4.50	25.06.99	24.06.06
	1997	37,073*		–	37,073*	5.20	16.06.00	15.06.07
	1998	62,177		–	62,177	6.64	22.06.01	21.06.08
	1999	*36,002*		–	*36,002*	*7.28*	*06.07.02*	*05.07.09*
	2000	*30,795*		–	*30,795*	*13.75*	*28.06.03*	*27.06.10*
	2001	*114,000*		–	*114,000*	*10.00*	*09.08.04*	*08.08.11*
	2002		*184,318*	–	*184,318*	*6.73*	*27.06.05*	*26.06.12*
		326,697	184,318	–	511,015			
Dr R D M J Summers (retired 31.12.02)	1995	15,050		–	15,050	4.23	14.12.98	13.12.05
	1996	88,500		–	88,500	4.50	25.06.99	24.06.06
	1997	111,180		–	111,180	5.20	16.06.00	15.06.07
	1998	14,632		–	14,632	6.64	22.06.01	21.06.08
	1999	*35,270*		–	*35,270*	*7.28*	*06.07.02*	*05.07.09*
	2000	*10,747*		–	*10,747*	*13.75*	*28.06.03*	*27.06.10*
	2001	*120,000*		–	*120,000*	*10.00*	*09.08.04*	*08.08.11*
		395,379	–	–	395,379			
P B G Williams (retired 31.12.02)	1995	29,350*		–	29,350*	4.23	14.12.98	13.12.05
	1996	59,600*		–	59,600*	4.50	25.06.99	24.06.06
	1997	95,343		–	95,343	5.20	16.06.00	15.06.07
	1998	30,454		–	30,454	6.64	22.06.01	21.06.08
	1999	*9,006*		–	*9,006*	*7.28*	*06.07.02*	*05.07.09*
	2000	*18,464*		–	*18,464*	*13.75*	*28.06.03*	*27.06.10*
	2001	*114,000*		–	*114,000*	*10.00*	*09.08.04*	*08.08.11*
		356,217	–	–	356,217			

The performance condition has not yet been met for those options shown in italics.
* Awarded before appointment as a Director.
† Of these options half became exercisable on the date shown and half became exercisable three years from that date.

Notes

1 Options normally only become exercisable if the performance conditions referred to below are met.

2 Options granted in 1993 and 1994 were granted under The 3i Executive Share Option Plan (the "1984 Plan") and are normally exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not normally exercisable before the sixth anniversary. These options are normally exercisable only if the net asset value per share on the last day of the financial period ending immediately before the third anniversary of the date of grant or on the last day of any financial period thereafter, is equal to or in excess of the net asset value per share on the date of grant compounded by the respective annual percentage movement in the Retail Prices Index ("RPI").

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

4 Options granted after 31 March 2001 were granted under The 3i Group Discretionary Share Plan (the "Discretionary Share Plan") and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. If, however, the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant but from the same base year. The performance target applicable to options granted since 31 March 2001 is set out in the table below:

Annual percentage compound growth in net asset value per share with dividends reinvested, relative to the annual percentage change in the Retail Prices Index	Percentage of the grant vesting
Below RPI + 5 percentage points	0%
At least RPI + 5 percentage points	50%
At levels of performance between RPI + 5 percentage points and RPI + 10 percentage points the grant will vest pro rata	
At least RPI + 10 percentage points	100%

Notes continued

5 The performance conditions referred to above were based on increases in net asset value so as to enable a significant proportion of executive Directors' potential remuneration to be linked to an increase in the assets of the Company. The intention has been to approximate to the performance conditions attached to carried interest schemes in the venture capital market whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The Committee determines whether the performance conditions have been fulfilled on the basis of calculations which are reviewed by the Company's auditors. The minimum target of RPI +5%, and the maximum target of RPI +10% for options granted since 31 March 2001, were chosen as being appropriately demanding in the prevailing market conditions at the time.

6 Following their ceasing to hold office as Directors, Dr R D M J Summers and Mr P B G Williams are permitted to exercise outstanding options under The 3i Group Discretionary Share Plan (being those granted in 2001 and 2002) within six months of the performance condition being satisfied and to exercise outstanding options under the 1994 Plan (being the balance of their outstanding options) within 12 months of ceasing to hold office.

7 For US legal and regulatory reasons, in 2001 Mr M M Gagen was granted phantom share options (contractual rights to payments in circumstances designed to mirror the effect of an option to acquire shares under the Discretionary Share Plan) on the same terms and conditions as share options granted to other Directors in that year. The details of these phantom share options are set out in the table below:

	Held at 1 April 2002	Granted during the year	Exercised during the year	Held at 31 March 2003	Exercise price £	Market price on date of exercise £	Date from which exercisable	Expiry date
Executive Director								
M M Gagen	114,000	–	–	114,000	10.00	–	09.08.04	08.08.11

8 The mid-market price of shares in the Company at 31 March 2003 was 416.5p and the range during the period 1 April 2002 to 31 March 2003 was 406.5p to 810.5p. The aggregate of the amount of gains made by Directors on the exercise of share options in the year was £nil (2002: £398,344). Options under the 1984 Plan, the 1994 Plan and the Discretionary Share Plan have been granted with exercise prices not less than the prevailing market value. Options are granted at no cost to the option holder. No options held by Directors lapsed during the year.

US Carried Interest Plan Awards The following table provides details of the awards made to Mr M M Gagen under the US carried interest plans.

	Points as at 1 April 2002	Points allocated during the year	Payments received during the year	Points as at 31 March 2003
Executive Director				
M M Gagen	nil	115 (2000 Vintage)	–	115 (2000 Vintage)
		52 (2001 Vintage)	–	52 (2001 Vintage)
		111 (2002 Vintage)	–	111 (2002 Vintage)
		135 (2003 Vintage)	–	135 (2003 Vintage)

The plans operate on the basis of annual "vintages" of investments and points are used to allocate carried interest between participants. New investments made in a particular financial year belong to the same vintage. Further investments in subsequent years are treated as belonging to the vintage in which the first investment was made. Payments will be made to the executive Director in relation to his points for a particular vintage when proceeds from the realisation of investments are received. If the value of any remaining investments for a vintage (both realised and unrealised) exceeds a specified internal rate of return (10% for the vintage years ended 31 March 2000 and 2001 and 8% for the vintage years ended 31 March 2002 and 2003), a proportion of the realised profits will be paid to the executive Director in accordance with his points. If the specified internal rate of return is not achieved, a lesser amount will be paid to the executive Director. The number of points allocated to the US based Director was determined by the Committee after taking into account market practice in the US. The conditions determining payments under the plans were chosen so as to link participants rewards to realised profits from investments.

The points set out in the above table provide Mr M M Gagen with the opportunity (subject as mentioned above) to benefit over time by the amount of profit realised on investments having an aggregate original cost of $4.6 million representing 0.95% of the investments made by the US business during the relevant period. Currently these investments are valued at below cost and the points have no accrued value.

The Share Incentive Plan Eligible UK employees, including executive Directors, may participate in an Inland Revenue approved Share Incentive Plan. During the year participants could invest up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company granted two free additional shares (referred to as matching shares). Dividends are reinvested on behalf of participants in further shares (referred to as dividend shares). Details of shares acquired by the executive Directors under this Plan during the year are set out in the table below.

	Held at 1 April 2002	Held at 31 March 2003 (or retirement if earlier) Partnership shares	Held at 31 March 2003 (or retirement if earlier) Matching shares	Held at 31 March 2003 (or retirement if earlier) Dividend shares
Executive Directors				
B P Larcombe	–	293	586	8
R W Perry	–	293	586	8
M J Queen	–	276	552	6
Dr R D M J Summers (retired 31.12.02)	–	211	422	2
P B G Williams (retired 31.12.02)	–	211	422	2

Notes Since 31 March 2003, Mr B P Larcombe, Mr R W Perry and Mr M J Queen have each acquired a further 28 partnership shares and have each been awarded a further 56 matching shares.

Pension arrangements The executive Directors are, and until their ceasing to be Directors on 31 December 2002, Dr R D M J Summers and Mr P B G Williams were, members of the 3i Group Pension Plan which is a defined benefit contributory scheme to which, at the most recent valuation date, 98% of UK employees belonged. The Plan provides for a pension, subject to Inland Revenue limits, of two-thirds of basic annual salary (limited to the Earnings Cap where this applies) on retirement (normally at age 60) after 25 years' service and less for service under 25 years. The Plan also provides life cover of four times salary, pensions payable in the event of ill health and spouses' pensions on death. Further details of the Plan are set out in note 11 to the accounts on pages 48 to 50.

Details of the pension entitlements of Directors who served during the year are provided in the table below. The final column of the table gives the difference between the transfer value of the Director's pension entitlement at the start of the year and the transfer value at the end of the year, less the contributions paid by the Director. The difference over the year is the result of any extra benefits earned over the year and any change in the value placed on £1 p.a. of pension by the actuaries. The value placed by the actuaries on £1 p.a. of pension reflects financial conditions at the time (eg the level of the stock market or returns available on government bonds) and the method and assumptions they use to calculate transfer values from time to time. Changes in the value placed on £1 p.a. of pension can be positive or negative and can have much greater impact than the actual pension benefits earned.

	(Note 1) Age at 31 March 2003	(Note 1) Complete years of pensionable service at 31 March 2003	(Notes 1 and 3) Increase in accrued pension (excluding inflation) during the year to 31 March 2003 £'000 p.a.	(Notes 1 and 3) Total accrued pension at 31 March 2003 £'000 p.a.	(Note 4) Transfer value of increase in accrued benefit at 31 March 2003, less Director's contribution £'000 p.a.	(Notes 1 and 2) Increase in accrued pension (including inflation) during the year to 31 March 2003 £'000 p.a.	(Note 6) Transfer value of accrued benefits at 31 March 2003 £'000	(Note 6) Transfer value of the accrued benefits at 31 March 2002 £'000	Difference between transfer value at start and end of the accounting year, less Director's contribution £'000
Executive Directors									
B P Larcombe	49	28	26	409	272	32	5,396	4,145	1,250
M M Gagen	47	18	9	152	81	11	1,809	1,370	439
R W Perry	57	17	16	140	292	18	2,852	1,942	909
M J Queen	41	15	15	135	122	17	1,255	891	363
Dr R D M J Summers (retired 31.12.02)	58	30	(10)	212	663	(7)	4,121	3,457	664
P B G Williams (retired 31.12.02)	56	32	(12)	201	1,090	(10)	4,076	3,130	946

Notes

1 In the case of Dr R D M J Summers and Mr P B G Williams, 31 December 2002, being the date of leaving service.

2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60, except for Dr Summers and Mr Williams. For Dr Summers and Mr Williams, the figures shown are the difference between the amount of immediate pension granted to them on their leaving service and the amount of the deferred pension to which they would have been entitled if they had left on 31 March 2002.

3 The pensions shown, except for Dr Summers and Mr Williams, are deferred pensions payable from age 60. Dr Summers's and Mr Williams's figures represent the immediate pension granted on their leaving service, which was equal to their then accrued pensions reduced for early payment.

4 The transfer values have been calculated on the basis of actuarial advice in accordance with relevant professional guidance (Actuarial Guidance Note GN11 (version 8.1)) and, in the case of Dr Summers and Mr Williams reflect the benefits taken on early retirement.

5 Additional voluntary contributions are excluded from the above table.

6 The transfer values have been calculated on the basis of actuarial advice in accordance with relevant professional guidance (Actuarial Guidance Note GN11 (version 8.1)) and, in the case of Dr Summers and Mr Williams, reflect the benefits due to be paid after 31 March 2003 only.

Directors' service contracts The non-executive Directors, including the Chairman, hold office in accordance with the Articles of Association of the Company and do not have service contracts. Non-executive Directors' appointment letters provide that there is no entitlement to compensation or other benefits on ceasing to be a Director.

Company policy is that in normal circumstances executive Directors' notice periods should not exceed one year. Each executive Director has an employment contract with 3i plc (or, in the case of Mr M M Gagen, 3i Corporation) with a notice period not exceeding 12 months. Save for these notice periods the contracts have no unexpired terms. The contract of employment of each Director (other than Mr Gagen) dates from when he was first employed by the Group, being 23 September 1974 for Mr B P Larcombe, 1 July 1985 for Mr R W Perry and 22 June 1987 for Mr M J Queen. Mr Gagen's contract of employment is dated 12 July 2000. These contracts contain no specific provisions for the payment of compensation in the event of early termination.

The Committee considers that compensation payments on early termination of employment should depend on individual circumstances. The duty of Directors to mitigate their loss will always be a relevant factor. Under the rules of the Company's share option and long-term incentive award plans, a Director may be permitted to exercise options and awards within 12 months of leaving the Company for all the Plans, except the Discretionary Share Plan, under which a Director may be permitted to exercise options within six months of the date the options vest, if at all.

Directors' share interests As at 31 March 2003 the current executive Directors had the holdings in the Company's shares shown below.

	31 March 2003 shares	31 March 2002 shares
B P Larcombe	741,845	740,958
M M Gagen	91,055	91,055
R W Perry	22,436	21,509
M J Queen	130,135	129,285

These figures exclude conditional rights to acquire shares under the Management Equity Investment Plan detailed below in the section headed Historic awards.

Full details of the Directors' interests in the Company's shares are shown in note 39 to the accounts on page 62.

Historic awards This section of the Remuneration report gives details of historic awards held by Directors under the Management Equity Investment Plan.

Deferred share bonuses under the Management Equity Investment Plan For years up to 31 March 2001 executives could receive part of their annual bonus in the form of a deferred award of shares. The value of these awards was reported each year as remuneration for the year in respect of which they were awarded. Awards took the form of share options issued by an employee benefit trust to acquire shares at no cost to themselves after three years provided they remained in employment with the Group and, in the case of executive Directors, they had maintained an agreed shareholding during the three year period. There was no performance condition since the award was considered part of the bonus already earned. In 1997 and 1998, instead of granting nil-cost options, executives were granted market value options but also received a deferred cash bonus of the same amount which was payable only for the purpose of funding the exercise price payable when awards were exercised.

	Year of grant	Held at 1 April 2002	Granted during the year	Exercised during the year	Held at 31 March 2003 (or retirement if earlier)	Exercise price £	Date from which exercisable	Expiry date
Executive Directors								
B P Larcombe	1997	11,348	–	–	11,348	5.155	09.06.00	08.06.04
	1998	12,443	–	–	12,443	6.63	15.06.01	14.06.05
	1999	13,681	–	–	13,681	Nil	23.07.02	22.07.06
	2000	9,699	–	–	9,699	Nil	28.06.03	27.06.07
	2001	6,400	–	–	6,400	Nil	09.08.04	08.08.08
		53,571	–	–	53,571			
M M Gagen	1998	9,049	–	–	9,049	6.63	15.06.01	14.06.05
	1999	8,333	–	–	8,333	Nil	23.07.02	22.07.06
	2000	6,668	–	–	6,668	Nil	28.06.03	27.06.07
		24,050	–	–	24,050			
R W Perry	1998	6,787*	–	–	6,787	6.63	15.06.01	14.06.05
	1999	5,970*	–	–	5,970	Nil	23.07.02	22.07.06
	2000	5,819	–	–	5,819	Nil	28.06.03	27.06.07
	2001	3,600	–	–	3,600	Nil	09.08.04	08.08.08
		22,176	–	–	22,176			
M J Queen	1997	5,075*	–	–	5,075	5.155	09.06.00	08.06.04
	1998	8,144	–	–	8,144	6.63	15.06.01	14.06.05
	1999	8,333	–	–	8,333	Nil	23.07.02	22.07.06
	2000	6,668	–	–	6,668	Nil	28.06.03	27.06.07
	2001	4,000	–	–	4,000	Nil	09.08.04	08.08.08
		32,220	–	–	32,220			
Dr R D M J Summers (retired 31.12.02)	1996	13,144	–	–	13,144	Nil	12.07.99	31.12.03
	1997	10,766	–	–	10,766	5.155	09.06.00	31.12.03
	1998	9,049	–	–	9,049	6.63	15.06.01	31.12.03
	1999	10,447	–	–	10,447	Nil	23.07.02	31.12.03
	2000	7,274	–	–	7,274	Nil	01.01.03	31.12.03
	2001	4,500	–	–	4,500	Nil	01.01.03	31.12.03
		55,180	–	–	55,180			
P B G Williams (retired 31.12.02)	1997	9,602	–	–	9,602	5.155	09.06.00	31.12.03
	1998	9,049	–	–	9,049	6.63	15.06.01	31.12.03
	1999	8,333	–	–	8,333	Nil	23.07.02	31.12.03
	2000	6,668	–	–	6,668	Nil	01.01.03	31.12.03
	2001	4,000	–	–	4,000	Nil	01.01.03	31.12.03
		37,652	–	–	37,652			

* Awarded before appointment as a Director.

Note Dr R D M J Summers and Mr P B G Williams are permitted to exercise their deferred share bonuses within 12 months of their ceasing to be Directors.

Long-term incentive awards As well as receiving share bonus awards, from 1997 to 2000 executives could also be offered awards linked to the longer term performance of the Group. Participants were awarded a share option by an employee benefit trust to acquire shares at no cost to themselves after five years provided a performance condition had been satisfied. In 1997 and 1998, instead of granting nil-cost options, executives were granted market value options but also received a deferred cash bonus of the same amount which was payable only for the purpose of funding the exercise price payable when awards were exercised.

	Year of grant	Held at 1 April 2002	Granted during the year	Exercised during the year	Held at 31 March 2003 (or retirement if earlier)	Exercise price £	Date from which exercisable	Expiry date
Executive Directors								
B P Larcombe	1997	17,313	–	–	17,313	5.155	09.06.02	08.06.04
	1998	7,682	–	–	7,682	6.63	15.06.03	14.06.05
	1999	12,714	–	–	12,714	Nil	23.07.04	22.07.06
	2000	51,518	–	–	51,518	Nil	28.06.05	27.06.07
		89,227	–	–	89,227			
M M Gagen	1997	28,353	–	–	28,353	5.155	09.06.02	08.06.04
	1998	1,652	–	–	1,652	6.63	15.06.03	14.06.05
	1999	38,182	–	–	38,182	Nil	23.07.04	22.07.06
	2000	30,090	–	–	30,090	Nil	28.06.05	27.06.07
		98,277	–	–	98,277			
R W Perry	1998	23,540*	–	–	23,540	5.155	09.06.02	08.06.04
	1999	842*	–	–	842	Nil	23.07.04	22.07.06
	2000	21,054	–	–	21,054	Nil	28.06.05	27.06.07
		45,436	–	–	45,436			
M J Queen	1998	27,348	–	–	27,348	5.155	09.06.02	08.06.04
	1999	46,817	–	–	46,817	Nil	23.07.04	22.07.06
	2000	25,776	–	–	25,776	Nil	28.06.05	27.06.07
		99,941	–	–	99,941			
Dr R D M J Summers (retired 31.12.02)	1997	22,175	–	–	22,175	5.155	09.06.02	31.12.03
	1998	4,119	–	–	4,119	6.63	01.01.03	31.12.03
	1999	7,407	–	–	7,407	Nil	01.01.03	31.12.03
	2000	38,094	–	–	38,094	Nil		
		71,795	–	–	71,795			
P B G Williams (retired 31.12.02)	1997	28,353	–	–	28,353	5.155	09.06.02	31.12.03
	1998	1,652	–	–	1,652	6.63	01.01.03	31.12.03
	1999	21,298	–	–	21,298	Nil	01.01.03	31.12.03
	2000	33,353	–	–	33,353	Nil		
		84,656	–	–	84,656			

* Awarded before appointment as a Director.

Notes In accordance with the rules of the Plan, Dr R D M J Summers and Mr P B G Williams are permitted, within 12 months of their ceasing to be Directors, to exercise the awards granted in 1997, 1998 and 1999 (being those with release dates of 2002, 2003 and 2004 respectively), to the extent that the three year performance condition was satisfied (being 100% for the 1997 and 1998 awards and 64.6% for the 1999 awards). The awards granted in 2000 (being those with original release dates of 2005) lapsed following their ceasing to be Directors.

The performance condition provides that no shares vest unless the increase in the Company's total shareholder return (TSR) over a three year performance period is equal to or exceeds the compounded annual increase in the RPI over the period + 6% per annum. If the Company's TSR over the period is equal to the compounded annual increase in the RPI over the period + 6% per annum, 35% of the shares vest and all shares vest if TSR is equal to or exceeds RPI + 20% per annum. At performance between these levels, a proportion of shares vest. If the minimum performance condition is not achieved in the three year performance period, the performance period is extended up to a maximum period of seven years but from the same base year. The Committee decided that a performance condition linked to shareholder return was in shareholders' interests and by linking the condition to RPI inflationary increases were discounted. The minimum TSR target of RPI + 6% per annum, and the maximum TSR target of RPI + 20% per annum, were chosen as being suitably demanding at that time whilst aligning the interests of participants and shareholders. The Group's Human Resources department calculates whether and the extent to which the performance condition has been satisfied in accordance with the formula and this calculation is audited by the Company's auditors.

By order of the Board

Baroness Hogg
Chairman

14 May 2003

Independent auditors' report to the members of 3i Group plc

We have audited the Group's financial statements for the year ended 31 March 2003, which comprise Consolidated statement of total return, Reconciliation of movement in shareholders' funds, Consolidated revenue statement, Consolidated balance sheet, Parent company balance sheet, Consolidated cash flow statement, Accounting policies and the related notes 1 to 49. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.
Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 26 to 29 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises Chairman's statement, Chief Executive's statement, Operating review, Financial review, Corporate Social Responsibility report, Directors' report, Remuneration report, Principal subsidiary undertakings and joint ventures, Portfolio valuation methodology and Investment analysis. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinion In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the loss of the Group for the year then ended; and the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor

London

14 May 2003

Consolidated statement of total return

for the year to 31 March 2003

	Notes	Revenue 2003 £m	Capital 2003 £m	Total 2003 £m	Revenue 2002 £m	Capital 2002 £m	Total 2002 £m
Capital profits							
Realised profits/(losses) on disposal of investments	2		**184**	**184**		(39)	(39)
Unrealised (losses) on revaluation of investments	3		**(1,165)**	**(1,165)**		(890)	(890)
			(981)	**(981)**		(929)	(929)
Total operating income before interest payable	1	**298**	**10**	**308**	355	–	355
Interest payable	6	**(57)**	**(53)**	**(110)**	(114)	(6)	(120)
		241	**(1,024)**	**(783)**	241	(935)	(694)
Administrative expenses	9	**(64)**	**(89)**	**(153)**	(121)	(50)	(171)
Amortisation of goodwill		**–**	**–**	**–**	(2)	(71)	(73)
Cost of changes to organisational structure	12	**(5)**	**(5)**	**(10)**	(9)	(9)	(18)
Return before tax and currency translation adjustment	1	**172**	**(1,118)**	**(946)**	109	(1,065)	(956)
Tax	14	**(32)**	**35**	**3**	(3)	4	1
Return for the year before currency translation adjustment		**140**	**(1,083)**	**(943)**	106	(1,061)	(955)
Currency translation adjustment		**6**	**2**	**8**	(4)	(1)	(5)
Total return		**146**	**(1,081)**	**(935)**	102	(1,062)	(960)
Total return per share							
Basic (pence)		**23.9p**	**(177.1)p**	**(153.2)p**	16.8p	(174.5)p	(157.7)p
Diluted (pence)		**23.9p**	**(176.9)p**	**(153.0)p**	16.7p	(173.3)p	(156.6)p

Reconciliation of movement in shareholders' funds

	2003 £m	2002 £m
Opening balance	**3,945**	4,973
Revenue return	**146**	102
Capital return	**(1,081)**	(1,062)
Total return	**(935)**	(960)
Dividends	**(81)**	(78)
Proceeds of issues of shares	**7**	10
Movement in the year	**(1,009)**	(1,028)
Closing balance	**2,936**	3,945

Consolidated revenue statement

for the year to 31 March 2003

	Notes	2003 £m	2002 £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	4	**96**	113
Fixed rate dividends	4	**17**	19
		113	132
Other interest receivable and similar income	5	**34**	46
		147	178
Interest payable	6	**(57)**	(114)
Net interest income		**90**	64
Dividend income from equity shares	7	**106**	111
Share of net (losses)/profits of joint ventures		**(1)**	9
Fees receivable	8	**46**	56
Other operating income		**–**	1
Total operating income		**241**	241
Administrative expenses and depreciation	9	**(64)**	(121)
Amortisation of goodwill		**–**	(2)
Cost of changes to organisational structure	12	**(5)**	(9)
Profit on ordinary activities before tax	13	**172**	109
Tax on profit on ordinary activities	14	**(32)**	(3)
Profit for the year		**140**	106
Dividends			
Interim	16	**(29)**	(29)
Final	16	**(52)**	(49)
Profit retained for the year		**59**	28
Earnings per share			
Basic (pence)	17	**22.9p**	17.4p
Diluted (pence)	17	**22.9p**	17.3p

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 2003

Assets	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Treasury bills and other eligible bills			**1**		1
Loans and advances to banks	19		**527**		563
Debt securities held for treasury purposes	20		**283**		191
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	21	**1,336**		1,408	
Fixed income shares	21	**228**		324	
		1,564		1,732	
Equity shares					
Listed	21	**187**		413	
Unlisted	21	**2,188**		2,964	
		2,375		3,377	
			3,939		5,109
Interests in joint ventures	22				
Share of gross assets		**104**		133	
Share of gross liabilities		**(81)**		(98)	
			23		35
Intangible fixed assets					
Goodwill	24		**–**		–
Tangible fixed assets	25		**45**		50
Own shares	26		**44**		54
Other assets	27		**64**		61
Prepayments and accrued income	28		**73**		69
Total assets			**4,999**		6,133
Liabilities					
Deposits by banks	29		**423**		519
Debt securities in issue	30		**1,350**		1,339
Other liabilities	35		**56**		53
Accruals and deferred income	36		**173**		181
Provisions for liabilities and charges	37		**10**		12
Subordinated liabilities	38		**51**		84
			2,063		2,188
Called up share capital	39		**305**		305
Share premium account	40		**349**		342
Capital redemption reserve	40		**1**		1
Capital reserve	40		**1,940**		3,021
Revenue reserve	40		**341**		276
Equity shareholders' funds			**2,936**		3,945
Total liabilities			**4,999**		6,133
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		**19**		27
Commitments	49		**270**		411

Approved by the Board

Baroness Hogg
Brian Larcombe
Directors

14 May 2003

Parent company balance sheet

as at 31 March 2003

Assets	Notes	2003 £m	2003 £m	2002 £m	2002 £m
Loans and advances to banks	19		**431**		489
Debt securities held for treasury purposes	20		**283**		191
Debt securities and other fixed income securities held as financial fixed asset investments					
Loan investments	21	**1,258**		1,334	
Fixed income shares	21	**224**		318	
		1,482		1,652	
Equity shares					
Listed	21	**180**		406	
Unlisted	21	**1,999**		2,694	
		2,179		3,100	
			3,661		4,752
Interests in joint ventures	22		**1**		12
Shares in Group undertakings	23		**66**		137
Tangible fixed assets	25		**26**		31
Other assets	27		**72**		64
Prepayments and accrued income	28		**50**		49
Total assets			**4,590**		5,725
Liabilities					
Deposits by banks	29		**248**		323
Debt securities in issue	30		**997**		985
Other liabilities	35		**441**		376
Accruals and deferred income	36		**47**		47
Provisions for liabilities and charges	37		**–**		–
Subordinated liabilities	38		**2**		2
			1,735		1,733
Called up share capital	39		**305**		305
Share premium account	40		**349**		342
Capital redemption reserve	40		**1**		1
Capital reserve	40		**1,762**		2,939
Revenue reserve	40		**438**		405
Equity shareholders' funds			**2,855**		3,992
Total liabilities			**4,590**		5,725
Memorandum items					
Contingent liabilities					
Guarantees and assets pledged as collateral security	48		**16**		21
Commitments	49		**260**		394

Approved by the Board

Baroness Hogg
Brian Larcombe
Directors

14 May 2003

Consolidated cash flow statement

for the year to 31 March 2003

	Notes	2003 £m	2002 £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments		**75**	102
Other interest received and similar income		**31**	51
Interest paid on borrowings		**(58)**	(113)
Dividends received from equity shares		**102**	109
Fees and other net cash receipts		**46**	62
Operating and administrative costs paid		**(68)**	(148)
Net cash inflow from operating activities	42	**128**	63
Taxation received/(paid)		**4**	(2)
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans		**(673)**	(804)
Investment in equity shares and loans acquired from joint ventures		**(17)**	(233)
Sale, repayment or redemption of equity shares, fixed income shares and loan investments		**975**	1,123
Fees intrinsic to acquisition or disposal of investments		**10**	–
Investment interest paid		**(53)**	(6)
Investment administrative expenses		**(94)**	(59)
Investment in joint ventures		**(54)**	(347)
Divestment or repayment of interests in joint ventures		**19**	281
Disposal of investment properties		**–**	7
Purchase of tangible fixed assets		**(5)**	(7)
Sale of tangible fixed assets		**1**	1
Net cash flow from capital expenditure and financial investment		**109**	(44)
Acquisitions			
Acquisition of subsidiary undertakings	43	**–**	(51)
Equity dividends paid		**(78)**	(78)
Management of liquid resources	47	**15**	293
Net cash flow before financing		**178**	181
Financing			
Debt due within one year	46	**(104)**	(394)
Debt due after more than one year	46	**(32)**	165
Issues of shares	44	**7**	10
Net cash flow from financing		**(129)**	(219)
Increase/(decrease) in cash	46	**49**	(38)

Accounting policies

A Accounts presentation and convention These accounts have been prepared under the historical cost convention modified to include certain investments and fixed assets at valuation and in accordance with the revised Statement of Recommended Practice – Financial Statements of Investment Trust Companies ("revised SORP") – and applicable accounting standards, except as described below concerning the treatment of capital profits.

As the Company is a deposit taker regulated by the Financial Services Authority, the accounts have also been prepared in accordance with the requirements of Part VII of the Companies Act 1985 in respect of banking companies and groups.

The Articles of Association of the Company prohibit the distribution of its capital profits. Accordingly, the Company's capital profits, shown in note 40, are included in the capital reserve. In order to use consistent accounting policies in the Group accounts, the capital profits of subsidiary undertakings have been excluded from consolidated revenue and included in capital reserve. These capital profits of subsidiary undertakings are distributable. The Revenue statement of the Company has been omitted from these accounts in accordance with section 230 of the Companies Act 1985.

The recommendations contained within the revised SORP, issued by the Association of Investment Trust Companies in January 2003, have been adopted in these accounts. As a result, fee income and costs earned or incurred as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for in full as part of capital return, as opposed to being credited to revenue or allocated between revenue and capital. To the extent that taxation losses have been transferred between capital and revenue in order to be utilised against excess taxable profits, the transfer is reflected in the Statement of total return, Revenue statement and note 14. The adoption of these recommendations has had no effect on total return and, as a result, in accordance with the revised SORP, comparatives have not been changed.

Administrative expenses associated with making and managing investments and finance costs are allocated between capital and revenue. During the year, the methodology used to identify those administrative expenses available for allocation has been revised; this has resulted in a higher level of expenses being available. The allocation of finance costs has been revised to reflect the trend of returns within the portfolio. These returns have become increasingly based on total investment packages as opposed to the individual investment instruments making up the package. In order to reflect this, all finance costs less interest income on surplus funds has been allocated between revenue and capital. In the year to 31 March 2001, the proportion of available costs allocated to capital reserve was increased from 70% to 80%, this was to reflect returns moving in favour of capital returns due to higher technology investment. This allocation has now reverted to 70% for both administrative expenses and net finance costs. In accordance with the revised SORP, comparatives have not been restated.

B Joint ventures and associated undertakings Entities whose business is in a field of activity which is closely related or complementary to that of the Group and in which holdings are intended to be retained on a long term basis and are jointly controlled by the Group and one or more venturers under a contractual agreement are treated as joint ventures. These joint ventures are accounted for using the gross equity method of accounting.

The Directors believe that equity accounting for investments which may come within the Companies Act definition of associated undertakings, because 3i exerts significant influence, would not give a true and fair view of the income from the investment activities of the Group, since this is better measured by the inclusion of dividends and interest income. It is impracticable to quantify the effects of this departure. The treatment adopted is in accordance with Financial Reporting Standard 9 – Associates and Joint Ventures.

C Goodwill Goodwill is the difference between the cost of acquisition of shares in subsidiary undertakings and joint ventures and the aggregate fair value of the entity's identifiable assets and liabilities at the date of acquisition. Goodwill is capitalised as an intangible asset and amortised over its estimated useful economic life. This amortisation is allocated between revenue and capital based on the expected future split of returns of the businesses acquired. At each balance sheet date, consideration is given to the effect changing circumstances have on the value of goodwill.

D Fixed assets in use by the Group Fixed assets in use by the Group 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. Properties in use by the Group are included at external professional valuation, which is carried out at each balance sheet date. Depreciation is not provided against the value of the buildings as the amount is immaterial and impairment is considered annually. Motor vehicles being acquired on hire purchase are capitalised in the balance sheet and depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the revenue account over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

E Financial fixed assets Loan investments, fixed income and equity share investments, together with interests in joint ventures and the shares in Group undertakings, are regarded as financial fixed assets as they are held for long term investment purposes.

F Valuation of financial fixed assets and investment properties Investment packages comprising mixtures of equity shares, fixed income shares and loan investments, together with financial fixed assets of joint ventures, are included at valuation on the following bases:

a Listed investments are valued at mid-market price.

b Quoted shares for which an active market exists elsewhere are valued at mid-market price, except for shares quoted on secondary markets which are valued at latest traded price less an appropriate discount for illiquidity.

c Unquoted equity shares are valued by the Directors as follows: where the latest accounts show a profit, the valuation is made by reference to a price based on the application to the latest reported earnings of price-earnings ratios appropriate to similar listed investments. If the resultant valuation is less than half the book amount of net assets in those accounts, the valuation is based on half the book amount of those assets. Where the latest accounts show a loss, the valuation is based on half the book amount of net assets in those accounts. In each of these cases an appropriate discount is applied to the valuations to reflect restricted marketability and where appropriate they are modified to take account of special factors relating to each investment which are considered to affect the valuation. Where no accounts have been received for a period following the initial investment, the investment is valued at cost. For technology companies where cost or carrying value is no longer considered appropriate, the valuation is changed to fair value using the most appropriate criteria available.

d Unquoted fixed income shares and loan investments are valued at the lower of cost or recoverable amount.

e In all of the above categories of investment where failure has occurred the loss is charged against realised capital profits.

f Deferred consideration is included at the estimated present value of the expected proceeds. Investment properties are included at external professional valuation.

G Income recognition Dividends receivable on listed shares are brought into account on the ex-dividend date. Dividends receivable on shares where no ex-dividend date is quoted are brought into account when the right to receive payment is established. The fixed return on a loan investment is recognised on a time apportionment basis so as to reflect the effective yield on the loan. Other income, including interest receivable from derivatives, is recognised on the accruals basis except for income from finance leases and hire purchase contracts, which is credited to revenue so as to result in a constant periodic rate of return on the net cash investment.

H Administrative expenses Administrative expenses which comprise the costs of making and managing investments and the management of the Group are accounted for on an accruals basis. Costs associated with making and managing investments are allocated to revenue and capital profits. Costs of management of the Group are charged to revenue profit. Costs incurred as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for in full as part of capital return as opposed to being allocated between revenue and capital.

I Finance costs Finance costs, including those of derivatives, are accounted for on an accruals basis. Discounts, premiums and expenses arising on the issue of bonds and notes are amortised over the period of the related borrowing.

Finance costs of borrowing that relates to the financing of investments where future capital profits as well as revenue profits can be earned, are allocated to revenue and capital profits. Other finance costs are charged to revenue profit.

J Trading assets Loans and advances to customers and other non-investment assets are carried at the lower of book amount and recoverable amount.

K Deferred tax Provision is made for deferred tax, using the liability method, on all material timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided at a rate at which it is anticipated the timing difference will reverse. Deferred tax assets are recognised only when there is evidence that there will be taxable profits in the future to offset the deferred tax asset.

L Foreign currency translation Foreign currency revenue items, assets and liabilities, including those of non-UK subsidiary undertakings, are translated into sterling at the exchange rates ruling at the balance sheet date, with the exception of borrowings covered by forward exchange contracts which are translated at the contracted rates of exchange. Exchange adjustments arising on the translation of investments, borrowings and net assets including those of overseas subsidiary undertakings are dealt with through the appropriate reserves. Exchange adjustments arising on realised transactions are dealt with in the revenue or capital profit for the period as appropriate.

M Pensions Contributions made to pension schemes are charged so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual periods using the projected unit method. Variations in pension cost, which are identified as a result of independent actuarial valuations, are spread over the average remaining service lives of the current employees. To the extent to which such costs, after interest, do not equate with cash contributions an accrual or prepayment is recognised in the balance sheet.

Notes to the accounts

1 Segmental analysis of total return

The Group carries on its private equity and venture capital business in four geographical areas, the United Kingdom, continental Europe, the US and Asia Pacific and has one principal activity – the making of investments. The information shown below is based on the geographical location of investee companies and for the US and Asia Pacific also includes the results of older joint venture businesses.

Geographical areas	**United Kingdom 2003 £m**	**Continental Europe 2003 £m**	**US 2003 £m**	**Asia Pacific 2003 £m**	**Total 2003 £m**
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	**96**	**16**	**–**	**1**	**113**
Dividend income from equity shares	**89**	**17**	**–**	**–**	**106**
Fees receivable	**30**	**24**	**–**	**2**	**56**
Other income	**29**	**3**	**1**	**–**	**33**
Total operating income before interest payable	**244**	**60**	**1**	**3**	**308**
Revenue profit before tax	**186**	**(12)**	**(2)**	**–**	**172**
Capital profit before tax	**(586)**	**(377)**	**(140)**	**(15)**	**(1,118)**
Total return before tax	**(400)**	**(389)**	**(142)**	**(15)**	**(946)**
Net assets	**2,158**	**568**	**159**	**51**	**2,936**
Total assets	**3,360**	**1,348**	**198**	**93**	**4,999**

Geographical areas	United Kingdom 2002 £m	Continental Europe 2002 £m	US 2002 £m	Asia Pacific 2002 £m	Total 2002 £m
Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	117	14	–	1	132
Dividend income from equity shares	99	11	–	1	111
Fees receivable	32	21	–	3	56
Other income	37	18	1	–	56
Total operating income before interest payable	285	64	1	5	355
Revenue profit before tax and goodwill	137	(17)	(7)	(2)	111
Capital profit before tax and goodwill	(431)	(465)	(67)	(31)	(994)
Total return before tax and goodwill	(294)	(482)	(74)	(33)	(883)
Goodwill	–	(73)	–	–	(73)
Total return before tax	(294)	(555)	(74)	(33)	(956)
Net assets	2,851	862	179	53	3,945
Total assets	4,067	1,653	295	118	6,133

2 Realised profits/(losses) on disposal of investments

	2003 £m	2002 £m
Net proceeds	**970**	1,112
Opening valuation of investments disposed	**(755)**	(1,002)
Investments written off	**(79)**	(151)
Other	**48**	2
Realised profits/(losses) on disposal	**184**	(39)
Represented by:		
Listed	**8**	12
Unlisted	**176**	(51)
	184	(39)

Other includes £50 million (2002: £3 million) in respect of subordinated liabilities no longer repayable, as explained in note 38.

3 Unrealised (losses) on revaluation of investments

	2003 £m	2002 £m
Listed	**(169)**	(246)
Unlisted	**(996)**	(644)
	(1,165)	(890)

4 Interest receivable and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments

	UK 2003 £m	Non-UK 2003 £m	Total 2003 £m	UK 2002 £m	Non-UK 2002 £m	Total 2002 £m
Interest receivable on loan investments – unlisted	**79**	**17**	**96**	98	15	113
Fixed rate dividends – unlisted	**17**	**–**	**17**	19	–	19
	96	**17**	**113**	117	15	132

Interest receivable of £41 million (2002: £30 million) has been received by way of loan notes and a corresponding amount has been included in additions to loan investments.

5 Other interest receivable and similar income

	2003 £m	2002 £m
Interest receivable on money market assets, treasury debt securities and similar income	**34**	46

6 Interest payable

Interest payable has been allocated as follows:

	2003 £m	2002 £m
Revenue reserve	**57**	114
Capital reserve	**53**	6
	110	120

Interest payable during the year was allocated so that interest payable less other interest receivable and similar income was allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital. In previous years, interest payable, other than that relating to TH Technologieholding GmbH group, was allocated to the financing of assets which could only earn future revenue profits and was therefore charged to revenue profits.

7 Dividend income from equity shares

	UK 2003 £m	Non-UK 2003 £m	Total 2003 £m	UK 2002 £m	Non-UK 2002 £m	Total 2002 £m
Listed	**3**	**1**	**4**	8	2	10
Unlisted	**86**	**16**	**102**	91	10	101
	89	**17**	**106**	99	12	111

8 Fees receivable

Fees have been accounted for as follows:

	2003 £m	2002 £m
Revenue reserve	**46**	56
Capital reserve	**10**	–
	56	56

Fees receivable during the year earned as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for directly in the capital reserve as a result of adopting the revised Investment Trust SORP. In previous years, all fees were accounted for in the revenue reserve.

9 Administrative expenses and depreciation

	2003 £m	2002 £m
Staff costs		
Wages and salaries	**67**	74
Social security costs	**7**	8
Other pension costs	**15**	16
	89	98
Other administrative expenses	**57**	65
Depreciation	**7**	8
Total administrative expenses	**153**	171
Total administrative expenses have been allocated as follows:		
Revenue reserve	**64**	121
Capital reserve	**89**	50
	153	171

The average monthly number of employees during the year was 922 (2002: 1,084). At 31 March 2003, the number of employees was 858 (2002: 944). In addition to the staff costs shown above, an amount of £6 million (2002: £1 million) has been charged against realised capital profits in respect of carried interest payable to employees.

Costs incurred during the year as an intrinsic part of an intention to acquire or dispose of an investment have been accounted for directly to the capital reserve. In previous years, they were available for allocation. Costs associated with making and managing investments were allocated to revenue and capital profits based on the expected split of returns between revenue and capital. This split is expected to be 30% revenue and 70% capital (2002: 20% revenue and 80% capital).

10 Directors' emoluments

Details of Directors' emoluments are contained within the Remuneration report on pages 30 to 37.

11 Pension arrangements

The Group operates a number of pension schemes. The main scheme, which covers most employees, is the 3i Group Pension Plan ("the Plan"). The cost of the Plan recognised in the accounts was £12 million (2002: £13 million) and other plans was £3 million (2002: £3 million). This is a funded defined benefit scheme, the assets of which are independent of the Group's finances and are administered by trustees. The Group accounts for pension arrangements in accordance with Statement of Standard Accounting Practice 24 – Accounting for Pension Costs (SSAP 24). The Plan is the subject of an actuarial valuation every three years. The last full valuation was made at 30 June 2001 on the projected unit method. At that date, the market value of the assets was £246 million, and the actuarial value of the assets (taken to be market value) was sufficient to cover 92% of the value of benefits that had accrued to members after allowing for assumed increases in earnings and benefits. The principal assumptions were as follows:

	Accrued liabilities	Future contributions
Price inflation	2.7%	2.7%
Rate of return pre-retirement	8.2%	8.6%
Rate of return post-retirement	5.2%	5.5%
Salary increases (excluding promotion)	5.2%	5.2%
Pension increases	3.0%	3.0%

The deficit at 30 June 2001 has been spread over a ten year period, the average remaining service lives of the existing employees, using the percentage of payroll method.

The net cost and contributions in respect of the main scheme comprises:

	2003 £m	2002 £m
Regular cost	**11**	11
Variation from regular cost (including interest)	**1**	2
Net cost for the year	**12**	13
Contributions – cash	**25**	22

As a result of adverse economic and market conditions since 30 June 2001, the market value of the Plan's assets at 31 March 2003 would have been sufficient to cover 66% of the value of benefits that had accrued to members after allowing for assumed increases in earnings and benefits. If these conditions persist until the next triennial actuarial valuation of the Plan at 30 June 2004, the SSAP 24 based net cost will increase for 2005.

Following advice from independent actuaries, no employer's contributions were made during the period from 1 July 1985 to 1 April 2002 except that during the year to 31 March 2002 two payments were made into the Plan totalling £22 million. Employer's contributions to the Plan recommenced on 1 April 2002. For the year to 31 March 2003, standard contributions were agreed to be 31.5% of members' pensionable salaries. An additional £13 million was also paid on 31 March 2003. An amount of £13 million (2002: £nil) included in prepayments represents the cumulative difference between the net pension cost and contributions made.

11 Pension arrangements continued

New employees joining 3i and the Plan after 1 September 2002 are required to contribute 5% of their monthly pensionable salaries. Under its rules, the Plan was non contributory for employees, joining prior to 1 September 2002, from 1 April 1978 to 31 December 2002. From 1 January 2003, the rules of the Plan were changed and employees who joined the Plan prior to 1 September 2002 were required to contribute 1% of monthly pensionable salary, currently this will increase by 1% each year to a target of 5% of pensionable salary. After a review of the discretionary early retirement arrangements of the Plan, the employer's standard contribution rate changed from 1 April 2003 to 29.2%.

R W Perry and O H J Stocken are Directors of 3i Group plc and were also throughout the year Directors of Gardens Pension Trustees Limited, one of two Corporate Trustees of the 3i Group Pension Plan.

Financial Reporting Standard 17 – Retirement Benefits ("FRS17") changes the basis of accounting for pensions and other post-retirement benefits. Under the transitional arrangements for the introduction of FRS17, certain additional disclosures are required and these are given below.

The actuarial valuation at 30 June 2001 was updated to 31 March 2002 and 31 March 2003 by an independent qualified actuary in accordance with FRS17. The Plan's liabilities have been measured using the projected unit method. The valuation for FRS17 purposes is based on the membership details and demographic assumptions used in the most recent actuarial valuation. The Plan assets have been updated to market value as at 31 March 2003.

The key FRS17 assumptions used for the Plan were:

	2003	2002
Price inflation	**2.5%**	2.5%
Salary increases (excluding promotion)	**4.0%**	5.0%
Pension increases	**3.0%**	3.0%
Discount rate	**5.6%**	6.1%

The assets of the Plan and their expected return were:

	Long term rate of return expected at 31 March 2003	2003 Value £m	Long term rate of return expected at 31 March 2002	2002 Value £m
Equities	**7.5%**	**144**	8.5%	212
Gilts	**4.5%**	**42**	–	–
Other	**3.8%**	**27**	5.2%	39
		213		251
Present value of Plan liabilities		**(303)**		(265)
Net pension liability		**(90)**		(14)

A deferred tax asset has not been recognised on this deficit because its utilisation is considered unlikely in the foreseeable future.

If FRS17 had been adopted in the financial statements, the following amounts would have been recognised in the total return for the year to 31 March 2003:

	2003 £m
Revenue account	
Amount charged to administrative expenses	
Current service cost	**(11)**
Vested past service	**(1)**
Total administrative expenses	**(12)**
Amount charged to other finance costs	
Expected return on Plan assets	**20**
Interest on Plan liabilities	**(16)**
Net return	**4**
Revenue return	**(8)**
Capital account	
Difference between expected and actual return on Plan assets	**(76)**
Experience (losses) on Plan liabilities	**(5)**
Changes in assumptions underlying the present value of Plan liabilities	**(12)**
Actuarial (losses) recognised in total return	**(93)**
Total return	**(101)**

11 Pension arrangements continued

The movement in pension deficit is as follows:

	2003 £m
Opening balance	(14)
Current service cost	(11)
Past service cost	(1)
Contributions	25
Other financial interest	4
Actuarial (losses) recognised in capital reserve	(93)
Movement in the year	(76)
Closing balance	(90)

History of experience gains and losses:

	2003
Difference between the expected and actual return on Plan assets:	
Amount	£(76)m
Percentage of Plan assets (closing)	36%
Experience gains and losses on Plan liabilities:	
Amount	£(5)m
Percentage of present value of Plan liabilities (closing)	2%
Total amount recognised in Statement of total return:	
Amount	£(93)m
Percentage of present value of Plan liabilities (closing)	31%

If FRS17 had been fully implemented net assets would have reduced by:

	2003 £m	2002 £m
FRS17 deficit	90	14
SSAP 24 prepayment	13	–
	103	14

12 Cost of changes to organisational structure

A provision of £10 million (2002: £18 million) was made for organisational changes of the Group and staff reductions made during the year. This has been allocated between the revenue reserve £5 million (2002: £9 million) and the capital reserve £5 million (2002: £9 million) based on the underlying nature of the cost.

13 Profit on ordinary activities before tax

This is arrived at after charging:

	2003 £m	2002 £m
Depreciation on owned assets	6	6
Depreciation on hire purchase assets	1	2

Auditors' remuneration

The auditors received fees for the audit of the Group of £0.7 million (2002: £0.6 million), which included £0.2 million (2002: £0.2 million) for the Company. In addition, £0.7million (2002: £1.2 million) was paid by the Group to Ernst & Young for non-audit work. Total fees paid are analysed below:

	2003 £m	2002 £m
Statutory audit fee	0.7	0.6
Additional assurance	0.2	0.1
Total audit related services	0.9	0.7
Taxation advisory services	0.2	0.2
Other services		
Group reorganisation	–	0.3
Investment due diligence	0.1	0.3
Other	0.2	0.3
Total non-audit related services	0.3	0.9

13 Profit on ordinary activities before tax continued

Non-audit services, including regulatory reports and taxation advice, were undertaken by Ernst & Young in accordance with the principles in the Directors' report on page 29.

Audit related services are services required to be undertaken by the auditors which include the statutory and interim audits, regulatory returns and formalities relating to borrowing, shareholder and other circulars. This work is normally allocated to the auditors.

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

Other services are services that could be provided by a number of firms, including general consultancy work. All significant projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team.

14 Tax

The tax charge/(credit) for the year comprises:

	Revenue 2003 £m	**Capital 2003 £m**	Revenue 2002 £m	Capital 2002 £m
Charge/(credit) in respect of costs allocated to capital profits but utilised against revenue profits	**30**	**(30)**	–	–
UK corporation tax at 30% (2002: 30%)	**2**	**–**	2	–
Less relief for foreign tax	**(2)**	**–**	(2)	–
Foreign tax	**3**	**(1)**	4	–
Adjustment in respect of previous periods	**(1)**	**–**	(1)	–
Current tax charge/(credit) for the year	**32**	**(31)**	3	–
Deferred tax	**–**	**(4)**	–	(4)
Charge/(credit) for the year	**32**	**(35)**	3	(4)

The charge/(credit) for the year all relates to the Company and its subsidiary undertakings

Factors affecting the charge for the year The tax charge for the year differs from the standard rate of corporation tax in the UK, currently 30% (2002: 30%), and the differences are explained below:

	Revenue 2003 £m	**Capital 2003 £m**	Revenue 2002 £m	Capital 2002 £m
Return before tax	**172**	**(1,118)**	109	(1,065)
Return before tax multiplied by standard UK corporation tax rate of 30% (2002: 30%)	**52**	**(335)**	33	(320)
Effects of:				
Expenses not deductible for tax purposes	**1**	**–**	1	–
Short term timing differences	**1**	**–**	(5)	–
Current period unutilised tax losses	**7**	**–**	10	–
Non-taxable UK dividend income	**(29)**	**–**	(37)	–
Foreign tax	**3**	**–**	4	–
Foreign tax credits available for double tax relief	**(2)**	**–**	(2)	–
Adjustments in respect of previous periods	**(1)**	**–**	(1)	–
Capital losses not allowable because of Investment Trust status	**–**	**304**	–	320
Current tax charge/(credit) for the year	**32**	**(31)**	3	–

The Group's investments and capital return are primarily included in the Group's ultimate parent company, the affairs of which are directed so as to allow it to be approved as an investment trust. As investment trusts are exempt from capital gains tax, the Group's capital return is largely not taxable.

Factors that may affect future tax charges The Group currently has and expects to continue to generate surplus tax losses. A deferred tax asset in respect of these surplus losses is not recognised because their utilisation is considered unlikely in the foreseeable future.

15 Profit after tax

The amount dealt with in the revenue account of the Company is £101 million (2002: £110 million).

16 Dividends

	2003 £m	2002 £m
Interim paid 4.9p per share (2002: 4.9p per share paid)	**29**	29
Final proposed 8.6p per share (2002: 8.1p per share paid)	**52**	49
	81	78

17 Earnings and net assets per share

		2003	2002
Revenue profit for the year		**£140m**	£106m
Weighted average number of shares	– Basic	**610m**	609m
	– Diluted	**611m**	613m
Earnings per share	– Basic	**22.9p**	17.4p
	– Diluted	**22.9p**	17.3p
Net assets		**£2,936m**	£3,945m
Number of shares	– Basic	**611m**	610m
	– Diluted	**611m**	612m
Net asset value per share	– Basic	**481p**	647p
	– Diluted	**480p**	645p

The difference between the basic and diluted weighted average number of shares is the dilutive effect of share options.

18 Related undertakings

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 5 to the Companies Act 1985 is such that compliance would result in information of excessive length being given.

In accordance with section 231 of that Act, information regarding principal subsidiary undertakings and joint ventures is set out on page 66. Full information will be annexed to the Company's next annual return.

As permitted by Financial Reporting Standard 8 – Related Party Disclosures – transactions or balances with Group entities that have been eliminated on consolidation are not reported.

19 Loans and advances to banks

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Repayable on demand	**99**	48	**34**	9
Maturity of other loans and advances to banks				
Repayable:				
within three months	**313**	461	**282**	430
between one year and five years	**115**	54	**115**	50
	527	563	**431**	489

20 Debt securities held for treasury purposes

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Repayable within one year	**283**	191	**283**	191

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Debt securities and fixed income shares				
Loan investments	**1,336**	1,408	**1,258**	1,334
Fixed income shares	**228**	324	**224**	318
	1,564	1,732	**1,482**	1,652
Equity shares				
Listed	**187**	413	**180**	406
Unlisted	**2,188**	2,964	**1,999**	2,694
	2,375	3,377	**2,179**	3,100
Total	**3,939**	5,109	**3,661**	4,752
Maturity of debt securities and fixed income shares				
Repayable within one year	**101**	115	**95**	109
Repayable after more than one year	**1,463**	1,617	**1,387**	1,543
	1,564	1,732	**1,482**	1,652

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares continued

	The Group Equity shares 2003 £m	The Group Loan investments 2003 £m	The Group Fixed income shares 2003 £m	The Group Total 2003 £m
Opening balances				
Cost	2,685	1,640	450	4,775
Unrealised appreciation	692	(232)	(126)	334
	3,377	1,408	324	5,109
Additions at cost	327	384	6	717
Additions at cost from joint venture	17	–	–	17
Disposals, repayments and write-offs	(479)	(369)	(133)	(981)
Transfers	99	(121)	34	12
Unrealised appreciation	(1,068)	5	(1)	(1,064)
Currency translation	102	29	(2)	129
31 March 2003	2,375	1,336	228	3,939
Represented by:				
Cost	2,751	1,563	355	4,669
Unrealised appreciation	(376)	(227)	(127)	(730)
	2,375	1,336	228	3,939
Listed				
UK	158	–	–	158
Non-UK	29	–	–	29
	187	–	–	187
Unlisted				
UK	1,130	995	211	2,336
Non-UK	1,058	341	17	1,416
	2,188	1,336	228	3,752

	The Company Equity shares 2003 £m	The Company Loan investments 2003 £m	The Company Fixed income shares 2003 £m	The Company Total 2003 £m
Opening balances				
Cost	2,415	1,554	440	4,409
Unrealised appreciation	685	(220)	(122)	343
	3,100	1,334	318	4,752
Additions at cost	306	366	6	678
Additions at cost from joint venture	17	–	–	17
Disposals, repayments and write-offs	(408)	(349)	(128)	(885)
Transfers	99	(121)	34	12
Transfers to other Group companies	(21)	(3)	–	(24)
Unrealised appreciation	(983)	12	(4)	(975)
Currency translation	69	19	(2)	86
31 March 2003	2,179	1,258	224	3,661
Represented by:				
Cost	2,477	1,466	350	4,293
Unrealised appreciation	(298)	(208)	(126)	(632)
	2,179	1,258	224	3,661
Listed				
UK	158	–	–	158
Non-UK	22	–	–	22
	180	–	–	180
Unlisted				
UK	1,129	993	208	2,330
Non-UK	870	265	16	1,151
	1,999	1,258	224	3,481

21 Debt securities and other fixed income securities held as financial fixed asset investments and equity shares continued

Group companies have invested in or made commitments to 13 limited partnerships. These investments represented the following proportions of the total commitments of all investors in these partnerships:

Partnership	Proportion of total commitments
3i Europe Investment Partners No. 1	0.92%
3i Europe Investment Partners No. 2	<0.01%
3i 94 LMBO Plan	<0.01%
3i UK Investment Partners	0.23%
3i Smaller MBO Plan	<0.01%
3i NPM Smaller MBO Plan	<0.01%
3i UKIP II LP	<0.01%
3i Europartners II LP	<0.01%
3i Parallel Ventures LP	<0.01%
3i Europartners IIIA LP	<0.01%
3i Europartners IIIB LP	<0.01%
3i Asia Pacific Technology LP	<0.01%
3i Nippon Buyouts Venture Capital Investment Limited Partnership	0.03%

The proportion of total commitments shown above are those at both 31 March 2003 and 31 March 2002. Although Group companies act as the general partner and the manager of each partnership, since their rights as such are held in a fiduciary capacity, the investments are included as equity share investments. Unrealised appreciation on unlisted equity investments includes £6 million (2002: £13 million) which represents the net carried interest that would be received by the Group if all investments held by the limited partnerships were realised at their valuation on the balance sheet date. The Group received fee income of £34 million (2002: £35 million) and distributions of £7 million (2002: £2 million) from this activity.

22 Interests in joint ventures

	The Group 2003 £m	The Company 2003 £m
Opening balances		
Cost	**91**	**14**
Share of post acquisition retained surpluses less losses	**(6)**	**–**
Unrealised appreciation	**(50)**	**(2)**
	35	**12**
Additions	**54**	**–**
Disposals and repayment	**(24)**	**(1)**
Transfers	**(12)**	**(12)**
Share of net surplus less losses	**(1)**	**–**
Unrealised appreciation	**(35)**	**2**
Currency translation	**6**	**–**
31 March 2003	**23**	**1**
Represented by:		
Cost	**115**	**1**
Share of post acquisition retained surpluses less losses	**(7)**	**–**
Unrealised appreciation	**(85)**	**–**
	23	**1**

The additions to joint ventures were mainly the investment of equity in and loans to Woodrose AB.

Details of the Group's interest in its principal joint venture, which is unlisted and outside the UK, is given on page 66.

23 Shares in Group undertakings

	The Company 2003 £m
Opening balance	**137**
Additions	**16**
Disposals	**(25)**
Provisions	**(78)**
Currency translation	**16**
Closing balance	**66**

Details of the principal subsidiary undertakings are given on page 66.

24 Goodwill

	2003 £m
Opening cost	93
Currency translation	11
Disposal	(104)
Cost at 31 March 2003	–
Opening amortisation	93
Currency translation	11
Disposal	(104)
Amortisation at 31 March 2003	–
Book amount at 31 March 2003	–
Book amount at 31 March 2002	–

25 Tangible fixed assets

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Investment properties	5	–	–	–
Properties in use by the Group	27	34	26	31
Other fixed assets in use by the Group	13	16	–	–
	45	50	26	31

Properties	The Group Investment properties 2003 £m	The Company Investment properties 2003 £m	The Group Properties in use by the Group 2003 £m	The Company Properties in use by the Group 2003 £m
Opening balances				
Cost	–	–	23	21
Unrealised appreciation	–	–	11	10
	–	–	34	31
Additions	5	–	–	–
Disposals	–	–	(1)	–
Unrealised appreciation	–	–	(6)	(5)
	5	–	27	26
Represented by:				
Cost	5	–	22	21
Unrealised appreciation	–	–	5	5
	5	–	27	26
Freehold	5	–	9	8
Leasehold – 50 years and over	–	–	18	18
	5	–	27	26

Other fixed assets in use by the Group	The Group Office equipment 2003 £m	The Group Motor vehicles 2003 £m	The Group Hire purchase motor vehicles 2003 £m	The Group Total 2003 £m
Opening cost	53	1	5	59
Additions	4	–	1	5
Disposals	(1)	(1)	(1)	(3)
Cost at 31 March 2003	56	–	5	61
Opening depreciation	40	1	2	43
Charge for year	6	–	1	7
Disposals	–	(1)	(1)	(2)
Depreciation at 31 March 2003	46	–	2	48
Book amount at 31 March 2003	10	–	3	13
Book amount at 31 March 2002	13	–	3	16

25 Tangible fixed assets continued

Obligations under motor vehicle hire purchase contracts	The Group 2003 £m	The Group 2002 £m
Amounts payable:		
within one year	**1**	1
between two and five years	**1**	1
	2	2
Finance charge allocated to future periods	**–**	–
	2	2

26 Own shares

	2003 £m
Opening cost	**54**
Disposals	**(10)**
31 March 2003	**44**

Investment in own shares consists of shares in 3i Group plc held by The 3i Group Employee Trust to meet its obligations under the Group's share schemes. The market value of these shares at 31 March 2003 was £34 million (2002: £76 million). The Trustee has waived its right to receive dividends on the shares held by the Trust. The purchase of the shares is funded by an interest free loan from 3i Group plc.

27 Other assets

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Non-investment leases	**–**	1	**–**	–
Tax recoverable	**4**	9	**1**	3
Development properties	**–**	2	**–**	–
Other debtors	**60**	49	**9**	9
Amounts due from Group undertakings			**62**	52
	64	61	**72**	64

28 Prepayments and accrued income

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Interest receivable	**71**	66	**48**	46
Certificates of tax deposit	**2**	3	**2**	3
	73	69	**50**	49

29 Deposits by banks

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
With agreed maturity dates or periods of notice	**423**	519	**248**	323
Maturity of deposits with agreed maturity dates or periods of notice				
Repayable:				
within three months	**66**	153	**66**	153
between three months and one year	**3**	3	**3**	3
between two years and five years	**354**	363	**179**	167
	423	519	**248**	323

30 Debt securities in issue

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Bonds and notes	**1,183**	1,189	**830**	835
Other debt securities in issue	**167**	150	**167**	150
	1,350	1,339	**997**	985

Bonds and notes	Rate	Repayment	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Fixed rate (guaranteed)						
3i International BV	7.75%	2003	**150**	150		
Total fixed rate			**150**	150	**–**	–
Variable rate						
Unsecured loan notes		2007-2010	**2**	4	**1**	2
Total variable rate			**2**	4	**1**	2

Notes issued under the £2,000 million Note Issuance Programme	Rate	Repayment	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Fixed rate						
Public issues						
3i Group plc	6.875%	2007	**200**	200	**200**	200
3i Group plc	6.875%	2023	**200**	200	**200**	200
3i Group plc	5.750%	2032	**400**	400	**400**	400
Private placings			**22**	2	**20**	–
Total fixed rate			**822**	802	**820**	800
Variable rate						
Public issues						
3i Holdings plc		2007	**200**	200		
Private placings			**9**	33	**9**	33
Total variable rate			**209**	233	**9**	33
Total bonds and notes			**1,183**	1,189	**830**	835

Maturity of bonds and notes	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Repayable:				
on demand or within one year	**175**	28	**25**	28
between one year and two years	**2**	155	**–**	5
between two years and five years	**405**	3	**205**	–
after five years	**601**	1,003	**600**	802
	1,183	1,189	**830**	835

Other debt securities in issue	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
European Investment Bank	**22**	33	**22**	33
Other	**145**	117	**145**	117
	167	150	**167**	150
Maturity of other debt securities in issue				
Repayable:				
within three months	**115**	115	**115**	115
between three months and one year	**42**	11	**42**	11
between one year and two years	**5**	22	**5**	22
between two years and five years	**5**	2	**5**	2
	167	150	**167**	150

30 Debt securities in issue continued

The Group had the following committed multi-currency facilities at 31 March 2003:

Negotiated	Facility	Drawn	Drawn margin (over LIBOR)	Undrawn commitment fee	Maturity
April 1997	£625m	–			18 April 2004
			0.150%	0.0750%	Years 6 to 7
June 2001	£360m	£351m			21 June 2006
			0.175%	0.0875%	Years 1 to 5

31 Interest rate sensitivity gap analysis

Interest rate risk emanates from the Group's loan investments and the Group's funding. The Group's policy is that fixed rate lending is matched with fixed rate borrowings and the interest rate resetting profile of variable rate lending is matched with that of variable rate borrowings through gearing the portfolio. Financial instruments including interest rate swaps are used as part of this matching process. Equity investments, which are mainly funded by shareholders' funds but also partially by borrowings in similar currencies, give rise to an interest rate sensitivity gap as a result of the equity investments being non-interest bearing and having no fixed maturity date. The interest rate sensitivity gap at 31 March 2003 was:

Assets	Not more than three months 2003 £m	More than three months but not more than six months 2003 £m	More than six months but not more than one year 2003 £m	More than one year but not more than five years 2003 £m	More than five years 2003 £m	Non-interest bearing 2003 £m	Total 2003 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	412	105	10	–	–	–	527
Debt securities held for treasury purposes	228	55	–	–	–	–	283
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	438	67	65	328	438	–	1,336
Fixed income shares	–	–	–	–	–	228	228
Equity shares	–	–	–	–	–	2,375	2,375
Other assets	–	–	–	–	–	249	249
	1,078	227	75	328	439	2,852	4,999
Liabilities							
Deposits by banks	316	104	3	–	–	–	423
Debt securities in issue	(44)	126	(34)	302	1,000	–	1,350
Other liabilities	–	–	–	–	–	239	239
Subordinated liabilities	–	–	–	–	51	–	51
Shareholders' funds	–	–	–	–	–	2,936	2,936
	272	230	(31)	302	1,051	3,175	4,999
Interest rate sensitivity gap	806	(3)	106	26	(612)	(323)	–
Cumulative gap	806	803	909	935	323	–	–

31 Interest rate sensitivity gap analysis continued

Assets	Not more than three months 2002 £m	More than three months but not more than six months 2002 £m	More than six months but not more than one year 2002 £m	More than one year but not more than five years 2002 £m	More than five years 2002 £m	Non-interest bearing 2002 £m	Total 2002 £m
Treasury bills and other eligible bills	–	–	–	–	1	–	1
Loans and advances to banks	509	54	–	–	–	–	563
Debt securities held for treasury purposes	161	30	–	–	–	–	191
Debt securities and other fixed income securities held as financial fixed assets							
Loan investments	496	98	95	273	446	–	1,408
Fixed income shares	–	–	–	–	–	324	324
Equity shares	–	–	–	–	–	3,377	3,377
Other assets	–	–	–	–	–	269	269
	1,166	182	95	273	447	3,970	6,133
Liabilities							
Deposits by banks	448	68	3	–	–	–	519
Debt securities in issue	144	(28)	108	(106)	1,221	–	1,339
Other liabilities	–	–	–	–	–	246	246
Subordinated liabilities	–	–	–	–	84	–	84
Shareholders' funds	–	–	–	–	–	3,945	3,945
	592	40	111	(106)	1,305	4,191	6,133
Interest rate sensitivity gap	574	142	(16)	379	(858)	(221)	–
Cumulative gap	574	716	700	1,079	221	–	–

32 Currency exposures

Currency rate risk emanates from the Group's international operations. The policy regarding currency risk is set out in the Financial review on page 19. Currency swaps are used as part of applying that policy.

The Group's structural currency exposures at 31 March 2003 were as follows:

Currency	**Variable rate loan investments 2003 £m**	**Fixed rate loan investments 2003 £m**	**Other investment assets 2003 £m**	**Other net assets before borrowings 2003 £m**	**Short term variable rate borrowings 2003 £m**	**Other variable rate borrowings 2003 £m**	**Fixed rate borrowings 2003 £m**	**Net assets 2003 £m**
Sterling	**397**	**496**	**1,450**	**688**	**14**	**200**	**(1,244)**	**2,001**
Euro	**91**	**181**	**656**	**69**	**(113)**	**42**	**(259)**	**667**
US dollar	**37**	**62**	**221**	**10**	**(32)**	**–**	**–**	**298**
Swiss franc	**–**	**38**	**26**	**2**	**(25)**	**–**	**–**	**41**
Swedish krona	**1**	**20**	**217**	**20**	**–**	**(354)**	**–**	**(96)**
Other	**–**	**13**	**61**	**4**	**(39)**	**–**	**(14)**	**25**
Subtotal	**129**	**314**	**1,181**	**105**	**(209)**	**(312)**	**(273)**	**935**
Total	**526**	**810**	**2,631**	**793**	**(195)**	**(112)**	**(1,517)**	**2,936**

Currency	Variable rate loan investments 2002 £m	Fixed rate loan investments 2002 £m	Other investment assets 2002 £m	Other net assets before borrowings 2002 £m	Short term variable rate borrowings 2002 £m	Other variable rate borrowings 2002 £m	Fixed rate borrowings 2002 £m	Net assets 2002 £m
Sterling	572	534	2,178	503	(80)	71	(1,034)	2,744
Euro	72	155	841	186	(61)	(53)	(231)	909
US dollar	3	51	347	24	(96)	–	(14)	315
Swiss franc	–	6	27	1	(22)	–	–	12
Swedish krona	3	4	280	10	–	(353)	–	(56)
Other	–	8	63	19	(14)	–	(55)	21
Subtotal	78	224	1,558	240	(193)	(406)	(300)	1,201
Total	650	758	3,736	743	(273)	(335)	(1,334)	3,945

33 Liquidity

The Group's liquidity policy is based on a maturity ladder approach with all mismatch limits of cash flows between cumulative assets and cumulative liabilities over various time periods approved by the Board. The limits for shorter periods are also agreed with the Financial Services Authority.

34 Fair value of financial assets and financial liabilities

The Group does not have a trading book and it holds all assets and liabilities in a non-trading book.

Financial assets Quoted and unquoted equity investments and quoted fixed income shares are included in the consolidated balance sheet at market value or Directors' valuation which equates to fair value. Unquoted fixed income shares and loan investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. No liquid and active market exists, either for the unquoted fixed income share or loan investments or their component parts. The fair value of other financial assets equates to their book value in the consolidated balance sheet.

Financial liabilities 3i's borrowings finance loan investments, fixed income shares and equity shares. As stated above, these unquoted loan and fixed income share investments are included in the consolidated balance sheet at the lower of cost or recoverable amount. These investments are not shown at an estimated market value as no active and liquid market exists for them. The Report and accounts therefore do not include any recognition of the effect of their yield being above or below current market yields. However, Financial Reporting Standard 13 – Derivatives and other financial instruments: disclosures – requires disclosure of the fair value of those elements of the Group's borrowings that are listed even though, in some cases, the market for those borrowings is not particularly active. The remainder of the Group's borrowings, which are unlisted, do not have a liquid or active market.

The fair value of the listed element of financial liabilities at 31 March 2003 was £1,214 million (2002: £1,222 million), which compares with a book amount of £1,205 million (2002: £1,208 million). These borrowings are used to fund investments which, in general, yield a net margin to the Group and which would therefore have a higher fair value than the fair value of the borrowing. The fair value of other financial liabilities equates to their book value in the consolidated balance sheet.

Derivatives The Group does not trade in derivatives. The derivatives held hedge specific exposures and have maturities designed to match the exposures they are hedging. It is the intention to hold both the financial instruments giving rise to the exposure and the derivative hedging them until maturity and therefore no net gain or loss is expected to be realised.

The book value of derivatives represents net interest receivable/(payable) on such instruments at the balance sheet date. The fair value represents the replacement cost of the instruments at the balance sheet date. No unrealised gains or losses are included in the balance sheet. The amount of unrecognised gains or losses at the balance sheet date equates to the difference between fair value and book value.

The fair values and book values at 31 March 2003 of the swaps were:

	Fair value 2003 £m	Fair value 2002 £m	**Book value 2003 £m**	Book value 2002 £m
Interest rate swaps	**(24)**	(5)	**6**	6
Currency swaps	**(21)**	2	**2**	1
	(45)	(3)	**8**	7

All swaps held at 31 March 2003 mature before 31 March 2041.

The principal outstanding on currency swap agreements and notional principal outstanding on interest rate swap agreements were:

	2003 £m	2002 £m
Fixed rate to variable rate	**688**	715
Variable rate to fixed rate	**1,193**	1,064
Variable rate to variable rate	**170**	175
Fixed rate to fixed rate	**–**	60
Included in the above are currency swaps amounting to	**164**	271

All financial instruments are unsecured. However, 3i does not expect non-performance by the counterparties, whose credit ratings are reviewed regularly.

35 Other liabilities

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Obligations under hire purchase contracts	**2**	2	**–**	–
Proposed dividend	**52**	49	**52**	49
Taxation payable	**2**	2	**–**	–
Amounts due to Group undertakings			**389**	327
	56	53	**441**	376

The amounts due to Group undertakings include £338 million (2002: £215 million) due after more than one year.

36 Accruals and deferred income

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Interest payable	**43**	45	**26**	28
Other accruals	**130**	136	**21**	19
	173	181	**47**	47

37 Provisions for liabilities and charges

	Costs of organisational changes 2003 £m	Deferred tax 2003 £m	Total 2003 £m
Opening balance	**8**	**4**	**12**
Charge for year	**10**	**(4)**	**6**
Utilised in year	**(8)**	**–**	**(8)**
Movement for the year	**2**	**(4)**	**(2)**
31 March 2003	**10**	**–**	**10**

The provision for the cost of organisational changes relates to organisational changes and staff reductions in the year to 31 March 2003. This is explained in note 12. The remaining provision is expected to be largely utilised in the year to 31 March 2004.

Deferred tax Full provision has been made for deferred tax relating to capital allowances and other timing differences.

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Capital allowances and other timing differences				
Accelerated capital allowances	**–**	(1)	**–**	–
Other timing differences	**–**	4	**–**	–
Relief for losses	**–**	(3)	**–**	–
	–	–	**–**	–
Unrealised appreciation less expected losses	**–**	4	**–**	–
	–	4	**–**	–

The Group has generated surplus tax losses and expects to continue to do so in the future. A deferred tax asset in respect of these surplus losses has not been recognised because their utilisation is considered unlikely in the foreseeable future.

38 Subordinated liabilities

Subordinated liabilities comprise limited recourse funding from Kreditanstalt für Wiederaufbau (“KfW”), a German federal bank. This funding, which individually finances investment assets, is at various fixed rates of interest and maturity is dependent upon the disposal of the associated assets. This funding is subordinated to other creditors of the individual group undertakings to which these funds have been advanced.

During March, 3i Group plc agreed to purchase from KfW €72 million (£50 million) owed by Technologieholding Fonds VC GmbH and Technologieholding Fonds NBL GmbH for a consideration of €9 million (£6 million). The final legal agreement was signed on 29 April 2003. As an adjusting post balance sheet event this has been accounted for in the year to 31 March 2003 and results in a realised capital profit in the year of £39 million. Additionally, during the year, £11 million of loans were waived by KfW.

39 Called up share capital

	The Company 2003 Number	The Company 2003 £m
Ordinary shares of 50p each		
Authorised		
Opening balance	**700,000,000**	**350**
Movement for the year	**120,000,000**	**60**
31 March 2003	**820,000,000**	**410**
Issued, called up and fully paid		
Opening balance	**609,603,828**	**305**
Allotted on exercise of options under The 3i Executive Share Option Plan and The 3i Group 1994 Executive Share Option Plan at between 167p and 664p per share	**790,552**	**–**
Allotted on exercise of options under The 3i Group Sharesave Scheme at 467p per share	**117,083**	**–**
Allotted under The 3i Group Share Incentive Plan at between 431p and 764p per share	**342,877**	**–**
Allotted to vendors of SFK Finance Oy at 1210p per share	**63,913**	**–**
Movement for the year	**1,314,425**	**–**
31 March 2003	**610,918,253**	**305**

The market price of shares on the date on which the terms of the issues were fixed, was the price at which those shares were allotted, except in relation to those allotted under The 3i Group Sharesave Scheme where the market price of the shares was 583p.

There were options outstanding to subscribe for the shares of the Company under The 3i Executive Share Option Plan, The 3i Group 1994 Executive Share Option Plan, The 3i Group Discretionary Share Plan and The 3i Group Sharesave Scheme as follows:

	Number of options	Period of exercise	Exercise price
31 March 2003	**22,280,605**	**2003 to 2012**	**168p to 1375p**
31 March 2002	20,419,430	2002 to 2011	168p to 1375p

The interests of the Directors (all of which are beneficial) in the shares of the Company are shown below:

	31 March 2003 or date of retirement if earlier	31 March 2002 or date of appointment if later	31 March 2003 or date of retirement if earlier Conditional*	31 March 2002 or date of appointment if later Conditional*
Baroness Hogg	**12,355**	9,355	**–**	–
The Lord Camoys (retired 10 July 2002)	**10,200**	10,200	**–**	–
Dr J R Forrest	**1,500**	1,500	**–**	–
C J M Morin-Postel (appointed 12 September 2002)	–	–	**–**	–
F D Rosenkranz	**30,000**	15,000	**–**	–
F G Steingraber	**–**	–	**–**	–
O H J Stocken	**12,249**	6,108	**–**	–
B P Larcombe	**741,845**	740,958	**53,571**	53,571
M M Gagen	**91,055**	91,055	**24,050**	24,050
R W Perry	**22,436**	21,509	**22,176**	22,176
M J Queen	**130,135**	129,285	**32,220**	32,220
Dr R D M J Summers (retired 31 December 2002)	**639,573**	638,938	**55,180**	55,180
P B G Williams (retired 31 December 2002)	**306,127**	305,481	**37,652**	37,652

* Represents conditional rights to acquire shares pursuant to share bonus awards granted under the Management Equity Investment Plan, described on page 36.

In addition to the interests shown above, the executive Directors also have beneficial interests in the conditional rights to acquire shares pursuant to the performance linked awards granted under the Management Equity Investment Plan, which are detailed in the table on page 35. Each of the employees of the Group (including each of the executive Directors) is a potential beneficiary of The 3i Group Employee Trust and as such is interested (within the meaning of section 324 of the Companies Act 1985) in the 8,193,026 shares held by the trust at 31 March 2003. (Shares at 31 March 2002: 9,716,940.) This number of shares includes the shares over which Directors are mentioned above as having conditional rights to acquire under the Management Equity Investment Plan.

Details of Directors' share options under the Group's Executive Share Option Plans are shown in the Remuneration report on pages 32 to 33.

Dr R D M J Summers retained from 1 April 2002 to 31 December 2002 an interest in one share of €7 in 3i SA and an interest in one share of €16 in 3i Gestion SA, subsidiary undertakings of the Company, in order to comply with provisions in the Articles of Association of those companies.

Since 31 March 2003, there have been changes in the Directors' interests in shares. As at 2 May 2003, each of these Directors were beneficially interested in the following number of additional shares: B P Larcombe (84), R W Perry (84) and M J Queen (84). In addition, as at that date, the number of shares held by The 3i Group Employee Trust was 8,177,679.

40 Reserves

	The Group Revenue 2003 £m	The Group Share premium 2003 £m	The Group Capital redemption 2003 £m	The Group Capital 2003 £m
Opening balances	276	342	1	3,021
Retained revenue for the year	59			
Realised profits on disposal of investments				184
Change in value of retained investments				(1,165)
Fees receivable allocated to capital reserve				10
Interest payable allocated to capital reserve				(53)
Administrative expenses allocated to capital reserve				(89)
Cost of changes to organisational structure allocated to capital reserve				(5)
Tax on capital items				35
Increase in respect of shares issued		7		
Currency translation adjustment	6			2
Movement for the year	65	7	–	(1,081)
31 March 2003	341	349	1	1,940
The balance on the capital reserve represents:				
Realised profits				2,692
Unrealised appreciation				(752)
				1,940

	The Company Revenue 2003 £m	The Company Share premium 2003 £m	The Company Capital redemption 2003 £m	The Company Capital 2003 £m
Opening balances	405	342	1	2,939
Retained revenue for the year	20			
Realised profits on disposal of investments				115
Change in value of retained investments				(1,128)
Interest payable allocated to capital reserve				(25)
Administrative expenses allocated to capital reserve				(55)
Capital contribution to subsidiary undertakings				(100)
Tax on capital items				5
Increase in respect of shares issued		7		
Currency translation adjustment	13			11
Movement for the year	33	7	–	(1,177)
31 March 2003	438	349	1	1,762
The balance on the capital reserve represents:				
Realised profits				2,441
Unrealised appreciation				(679)
				1,762

	The Company £m	Subsidiary undertakings £m	Joint ventures £m	Total £m
Retained profits				
31 March 2003				
Revenue and realised capital profits	2,879	161	(7)	3,033
31 March 2002				
Revenue and realised capital profits	3,022	23	(6)	3,039

The Company's Articles of Association prohibit the distribution of capital profits. As a result, the balance of its capital reserve, both realised and unrealised, is not distributable.

41 Unrealised appreciation

	2003 £m	2002 £m
Unrealised appreciation represents the difference between the original cost of investments and their carrying value, less charges		
Opening balance after tax	**258**	1,281
Value surplus realised	**(38)**	(268)
Value deficit written back on realisation	**189**	131
Change in value surplus	**(1,165)**	(890)
Tax credit	**4**	4
Movement for the year	**(1,010)**	(1,023)
Closing balance after tax	**(752)**	258

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

	2003 £m	2002 £m
Revenue profit before tax	**172**	109
Depreciation of equipment and vehicles	**7**	8
Amortisation of goodwill	**–**	2
Tax on investment income included within income from overseas companies	**(1)**	(2)
Interest received by way of loan notes	**(41)**	(30)
Movement in other assets associated with operating activities	**(9)**	(5)
Movement in prepayments and accrued income associated with operating activities	**12**	13
Movement in accruals and deferred income associated with operating activities	**(15)**	(31)
Movement in provisions for liabilities and charges	**2**	8
Reversal of losses/(profits) of joint ventures less distribution received	**1**	(9)
Net cash inflow from operating activities	**128**	63

43 Acquisition of subsidiary undertakings

Analysis of the net outflow of cash from the acquisition of subsidiary undertakings is:

	2003 £m	2002 £m
Cash and acquisition costs	**–**	54
Cash acquired	**–**	(3)
Net cash flow	**–**	51

The acquisitions in 2002 did not have a material effect on the items prescribed in Financial Reporting Standard 1 (Revised 1996) – Cash Flow Statements – for inclusion in the consolidated cash flow.

44 Analysis of changes in financing during the year

	Share capital and share premium 2003 £m	Deposits and debt securities repayable after more than one year 2003 £m	Share capital and share premium 2002 £m	Deposits and debt securities repayable after more than one year 2002 £m
Opening balance	**647**	**1,548**	637	1,457
Exchange movements	**–**	**47**	–	(10)
Cash inflows from financing	**7**	**6**	10	220
Cash outflows from financing	**–**	**(45)**	–	(78)
Non-cash movements	**–**	**(184)**	–	(41)
Movement for the year	**7**	**(176)**	10	91
Closing balance	**654**	**1,372**	647	1,548

45 Reconciliation of net cash flows to movement in net debt

	2003 £m	2002 £m
Increase/(decrease) in cash in the year	**49**	(38)
Cash flow from management of liquid resources	**(15)**	(293)
Cash flow from debt financing	**143**	252
Cash flow from subordinated liabilities	**(7)**	(24)
Cash flow from finance leases	**–**	1
Change in net debt from cash flows	**170**	(102)
Foreign exchange movements	**(46)**	5
Non-cash changes	**50**	9
Movement in net debt in the year	**174**	(88)
Net debt at start of year	**(1,189)**	(1,101)
Net debt at end of year	**(1,015)**	(1,189)

46 Analysis of net debt

	1 April 2002 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	31 March 2003 £m
Cash and deposits repayable on demand	48	49	2	–	99
Treasury bills, other loans, advances and treasury debt securities	707	(15)	20	–	712
Deposits and debt securities repayable within one year	(310)	104	(11)	(184)	(401)
Deposits and debt securities repayable after one year	(1,548)	39	(47)	184	(1,372)
Subordinated liabilities repayable after one year	(84)	(7)	(10)	50	(51)
Finance leases	(2)	–	–	–	(2)
	(1,189)	170	(46)	50	(1,015)

47 Cash flows arising from management of liquid resources

	2003 £m	2002 £m
Other loans, advances and treasury debt securities	**15**	293
Net cash inflow from management of liquid resources	**15**	293

48 Contingent liabilities

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	**19**	27	**16**	21

The Company has guaranteed the creditors of 3i plc and 3i Holdings plc at the dates of their capital reductions to a maximum of the amounts of those capital reductions. The amounts of the capital reductions were £140 million in respect of 3i plc and £250 million in respect of 3i Holdings plc. The Company has guaranteed the payment of principal, premium, if any, and interest on all the interest swap agreements of 3i Holdings plc. The Company, 3i Holdings plc and 3i plc have jointly and severally guaranteed the payment of principal, premium, if any, and interest on the bonds and notes issued by 3i International BV as listed in note 30. The Company has guaranteed the payment of principal, premium, if any, and interest on notes issued under the £2,000 million Note Issuance Programme by 3i Holdings plc and 3i International BV.

The Company has guaranteed the payment of principal and interest on amounts drawn down under the £625 million revolving credit facilities by 3i plc and 3i Holdings plc and the £360 million revolving credit facility by 3i Holdings plc. At 31 March 2003, 3i Holdings plc had drawn down £nil (2002: £10 million) and £175 million (2002: £187 million) respectively under these facilities.

A wholly owned subsidiary undertaking of the Company, Technologieholding VC GmbH, has guarantees of £2 million (2002: £2 million) to Kreditanstalt für Wiederaufbau, a provider of subordinated loans to four of its wholly owned subsidiary undertakings.

At 31 March 2003, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

49 Commitments

	The Group 2003 £m	The Group 2002 £m	The Company 2003 £m	The Company 2002 £m
Share and loan investments	**270**	411	**260**	394

Principal subsidiary undertakings and joint ventures

Principal subsidiary undertakings at 31 March 2003

Name	Issued and fully paid share capital	Principal activity	Registered office
3i Holdings plc	1,000,000 shares of £1	Holding company	91 Waterloo Road London SE1 8XP
3i International Holdings	2,715,973 shares of £10	Holding company	
3i plc	10,000,000 shares of £1	Services	
3i Investments plc	10,000,000 shares of £1	Investment manager	
3i Japan GP Limited	250,000 shares of £1	General partner company	
3i Europe plc	500,000 shares of £1	Investment advisory services	
3i Nordic plc	500,000 shares of £1	Investment advisory services	
Gardens Pension Trustees Limited	100 shares of £1	Pension fund trustee	
3i Asia Pacific plc	140,000 shares of £1	Investment advisory services	
Ship Mortgage Finance Company public limited company	4,000,000 ordinary shares of £1 of which 3,000,000 are fully paid and 1,000,000 are partly paid (50p per share)	Advisory services	
3i International BV (The Netherlands)	40 shares of €454	Fundraising activities	Teleportboulevard 140 1043 EJ Amsterdam The Netherlands
3i Corporation (USA)	15,000 shares of common stock (no par value)	Investment manager	880 Winter Street Suite 330 Waltham MA 02451, USA
3i Deutschland Gesellschaft für Industriebeteiligungen mbH (Germany)	€25,564,594	Investment manager	Bockenheimer Landstrasse 55 60325 Frankfurt am Main, Germany
TH Technologieholding GmbH (Germany)	€25,565	Holding company	Romanstrasse 35 80639, Munich Germany
3i Finland Oy (Finland)	500 shares of €340	Investment advisory services	Mikonkatu 25 00100, Helsinki Finland
3i SA (France)	2,008,200 shares of €7	Investment company	168 Avenue Charles de Gaulle, 92200 Neuilly sur Seine France
3i Investissements SA (France)	1,500,000 shares of €15	Investment company	
3i Gestion SA (France)	200,000 shares of €16	Investment manager	
3i Austria GmbH (Austria)	€50,000	Investment advisory services	Am Graben 19/4 1010, Vienna Austria

The list above comprises the principal subsidiary undertakings as at 31 March 2003 all of which were wholly owned. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

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

As at 31 March 2003, the entire issued share capital of 3i Holdings plc was held by the Company. The entire issued share capital of 3i Investissements SA was held by the Company except for three shares which were held by subsidiary undertakings of the Company and for three shares which were held by individuals associated with the Group. The entire issued share capital of all the other principal subsidiary undertakings listed above was held by subsidiary undertakings of the Company, save that four shares in 3i Gestion SA and four shares in 3i SA were held by individuals associated with the Group.

Principal joint venture at 31 March 2003

Incorporated in the country stated

Name	Issued and fully paid share capital	Percentage attributable to the Group %	Principal activity	Principal place of business and registered office	Group's share of results based on accounts to
Woodrose Invest AB (Sweden)	101,000 shares of SEK 100	50	Investment company	Box 7847 10399 Stockholm Sweden	31 March 2003

As at 31 March 2003, a subsidiary undertaking of the Company held, on behalf of the Company, 50% of the shares of Woodrose Invest AB.

Portfolio valuation methodology

A description of the methodology used to value 3i's portfolio is set out below in order to provide more detailed information than is included each year in the accounting policies for the valuation of the portfolio.

The valuation of 3i's portfolio for the interim and annual accounts is arrived at using a systematic process based on objective criteria. The aim is to value the portfolio as a whole on a prudent and consistent basis. There has been no change to the valuation policy since 3i's flotation in 1994 and it complies in all material respects with the guidelines of the British Venture Capital Association.

Quoted investments Quoted investments are valued at the closing mid-market price at the balance sheet date, except for investments quoted on secondary markets including AIM which are discounted by 25%. Where there are restrictions on dealing in quoted investments, an appropriate discount is applied to the restricted shares.

Unquoted equity shares A three-stage valuation process is used:

1 The first stage is to value all unquoted equity investments in the manner described below:

New investments are generally valued at cost for the first 12 months or, if later, until the receipt of audited accounts covering a period of at least six months since the date of investment.

Any investment in a company which has failed or is expected to fail within the next 12 months is valued at nil.

The value of other investments (except technology investments) is arrived at by applying 3i's proportion of equity shares held to the valuation of the company calculated by multiplying the latest audited earnings by the average price-earnings ratio of the relevant sector of the FTSE SmallCap Index (or international equivalent), adjusted downwards by 3i to exclude loss-making companies. If the result of this calculation is less than half of 3i's share of net tangible assets, then the investment is valued at half of 3i's share of net tangible assets. The value of technology investments is arrived at as set out above except that where the investment is in a company which is performing to plan the valuation is not initially reduced below cost.

2 All investments valued at more than £4 million by the first stage of the process, together with any investments which the local office responsible for the investment considers to have a value in excess of £4 million and all technology investments valued at cost, are individually reviewed in line with internal guidelines for factors which may affect the value and their valuations may, as a result, be adjusted. These factors include:

- reliable financial information more recent than the audited accounts;
- non-recurring profits and losses and abnormal tax charges;
- imminent sale or IPO;
- significant third party transactions, which includes further rounds of finance to technology companies. Valuation increases are only recognised where there are substantial new outside investors and significant milestones have been achieved;
- for technology companies where cost or carrying value is no longer considered appropriate, investments are reduced to a fair value using the most appropriate criteria available;
- potential issues of shares dilutive to 3i or other shareholders;
- forecasts by the investee business of lower earnings;
- an industry standard basis of valuation, for example property companies, which are valued by reference to their net assets;
- large cash holdings; and
- very high gearing.

This process applies to approximately two-thirds of unquoted equity investments by value.

3 The third stage is to apply the following discounts to reflect the illiquidity of unquoted investments:

• investments valued at cost or half net tangible assets	nil
• investments valued at expected disposal proceeds or IPO value	10%
• investments valued on an earnings basis	25%

Unquoted fixed income shares and loan investments Unquoted fixed income shares and loan investments are generally valued at cost unless the company has failed or is expected to fail within the next 12 months when they are valued at the lower of cost and net recoverable amount.

An analysis of the equity portfolio by valuation method is given in the portfolio analysis on page 70.

Ten largest investments

At 31 March 2003, the Directors' valuation of the ten largest investments was a total of £409 million. These investments cost £371 million.

Investment	First invested in	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] Foreign currency services	1998						
Equity shares		–	19.6%	60	1		
		–		**60**	**1**	**45**	**15**
Nordisk Renting AB[5] Renting real estate	2001						
Equity shares		67	35.0%	47	3		
		67		**47**	**3**	**140**	**26**
Malmberg Investments BV Educational publisher	2001						
Equity shares		7	41.8%	26	–		
Loans		19		19	2		
		26		**45**	**2**	**16**	**3**
Mettis Group Ltd Orthopaedic and aerospace component service provider	1999						
Equity shares		1	40.0%	–	–		
Loans		50		43	3		
		51		**43**	**3**	**(19)**	**(11)**
SR Technics Holding AG[6] Repair and maintenance of aeroplane engines and frames	2002						
Equity shares		7	32.2%	7	–		
Loans		33		33	1		
		40		**40**	**1**		
Beltpacker plc Manufacture/marketing of healthcare/beauty products, footwear and accessories	2000						
Equity shares		12	38.9%	–	–		
Loans		43		38	–		
		55		**38**	–	**15**	**(13)**
Westminster Health Care Holdings Ltd Care homes operator	2002						
Equity shares		1	49.6%	1	–		
Loans		37		37	3		
		38		**38**	**3**	**3**	**1**
ERM Holdings Ltd[7] Environmental consultancy	2001						
Equity shares		–	39.0%	1	–		
Loans		35		35	4		
		35		**36**	**4**	**(3)**	**(3)**
Pets at Home Ltd Retailer in pets and pet supplies	1995						
Equity shares		2	26.0%	5	–		
Loans		27		27	2		
		29		**32**	**2**	**–**	**2**
Aspen Insurance Holdings Ltd[6] Property/casualty insurance underwriters	2002						
Equity shares		30	6.7%	30	–		
		30		**30**	**–**		

Notes

1 The investment information is in respect of 3i'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 2003.

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 and net assets of each business. Because of the varying rights attaching to the classes of shares held by 3i, 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 cost of the equity held in Travelex Holdings Ltd is £121,000.

5 This investment has been sold since the year end.

6 These companies were incorporated in 2002 and no audited accounts are available, consequently no net assets or earnings are disclosed.

7 The cost of the equity held in ERM Holdings Ltd is £463,000.

New investment analysis

Analysis of the equity, fixed income and loan investments made by 3i Group. This analysis excludes investments in joint ventures.

Investment by geography (3i only – excluding co-investment funds) (£m)	**2003**	2002	2001	2000	1999
UK	**318**	377	786	705	693
Continental Europe	**304**	312	560	306	137
US	**74**	119	134	28	1
Asia Pacific	**20**	26	49	31	6
Total	**716**	834	1,529	1,070	837

Investment by geography (including co-investment funds) (£m)					
UK	**399**	443	1,006	894	899
Continental Europe	**436**	446	770	422	241
US	**74**	119	134	28	1
Asia Pacific	**22**	31	62	32	6
Total	**931**	1,039	1,972	1,376	1,147

Continental European investment (£m)					
Benelux	**67**	64	63	39	3
France	**36**	84	117	84	63
Germany/Austria/Switzerland	**149**	146	346	130	83
Ireland	**2**	2	17	–	–
Italy	**32**	13	64	48	21
Nordic	**69**	90	16	–	–
Spain	**75**	45	131	95	68
Other European†	**6**	2	16	26	3
Total	**436**	446	770	422	241

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

Investment by product (£m)					
Buy-outs	**482**	361	687	579	609
Growth capital	**273**	258	362	340	327
Early stage technology	**176**	420	923	457	211
Total	**931**	1,039	1,972	1,376	1,147

Investment by FTSE industrial classification (£m)					
Resources	**12**	15	67	17	69
Industrials	**328**	110	256	201	376
Consumer goods	**194**	206	371	167	237
Services and utilities	**197**	352	482	546	330
Financials	**54**	26	55	48	41
Information technology	**146**	330	741	397	94
Total	**931**	1,039	1,972	1,376	1,147

Portfolio analysis

The Group's equity, fixed income and loan investments total £3,939 million at 31 March 2003.

Portfolio value by geography (including co-investment funds) (£m)	2003	2002	2001	2000	1999
UK	**3,041**	4,018	4,792	5,240	4,565
Continental Europe	**1,773**	1,984	2,039	1,514	882
US	**182**	270	246	192	14
Asia Pacific	**101**	101	98	64	12
Total	**5,097**	6,373	7,175	7,010	5,473

Portfolio value by geography (3i only – excluding co-investment funds) (£m)					
UK	**2,494**	3,386	4,121	4,668	4,036
Continental Europe	**1,175**	1,373	1,363	1,049	495
US	**180**	264	235	190	14
Asia Pacific	**90**	86	86	63	12
Total	**3,939**	5,109	5,805	5,970	4,557

Continental European portfolio value (£m)					
Benelux	**101**	78	92	59	2
France	**186**	253	254	203	173
Germany/Austria/Switzerland	**319**	385	556	533	196
Ireland	**8**	18	45	28	–
Italy	**69**	103	142	71	44
Nordic	**273**	304	26	6	–
Spain	**211**	222	234	135	80
Other European†	**8**	10	14	14	–
Total	**1,175**	1,373	1,363	1,049	495

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

Portfolio value by product (£m)					
Buy-outs	**2,001**	2,253	2,338	2,622	2,372
Growth capital	**1,349**	1,814	2,099	2,357	1,735
Early stage technology	**589**	1,042	1,368	991	450
Total	**3,939**	5,109	5,805	5,970	4,557

Portfolio value by FTSE industrial classification (£m)					
Resources	**186**	268	232	185	176
Industrials	**944**	1,117	1,081	1,247	1,258
Consumer goods	**873**	1,080	1,237	1,138	952
Services and utilities	**1,018**	1,318	1,538	1,648	1,559
Financials	**274**	273	256	251	196
Information technology	**644**	1,053	1,461	1,501	416
Total	**3,939**	5,109	5,805	5,970	4,557

Portfolio value by valuation method (£m)					
Imminent sale or IPO	**37**	51	106	241	88
Listed	**187**	413	818	1,103	742
Secondary market	**30**	89	266	483	75
Earnings	**938**	1,210	1,033	1,226	1,192
Cost	**607**	1,077	1,078	626	404
Further advance	**155**	186	244	143	38
Net assets	**139**	132	147	144	113
Other	**282**	219	157	119	82
Loan investments and fixed income shares	**1,564**	1,732	1,956	1,885	1,823
Total	**3,939**	5,109	5,805	5,970	4,557

Buy-out portfolio value by valuation method (£m)	2003	2002	2001	2000	1999
Imminent sale or IPO	**12**	14	30	33	47
Listed	**67**	144	279	573	382
Secondary market	**7**	15	23	21	14
Earnings	**536**	635	551	649	608
Cost	**149**	132	130	100	81
Net assets	**40**	36	32	45	36
Other	**115**	90	43	19	16
Loan investments and fixed income shares	**1,075**	1,187	1,250	1,182	1,188
Total	**2,001**	2,253	2,338	2,622	2,372

Growth capital portfolio value by valuation method (£m)					
Imminent sale or IPO	**14**	28	32	44	23
Listed	**120**	269	539	530	360
Secondary market	**23**	74	243	462	61
Earnings	**377**	544	442	511	526
Cost	**187**	234	134	102	109
Further advance	**42**	26	22	–	–
Net assets	**98**	88	114	98	75
Other	**69**	96	43	72	60
Loan investments and fixed income shares	**419**	455	530	538	521
Total	**1,349**	1,814	2,099	2,357	1,735

Early stage technology portfolio value by valuation method (£m)					
Imminent sale or IPO	**11**	9	44	164	18
Earnings	**25**	31	40	66	58
Cost	**271**	711	814	424	214
Further advance	**113**	160	222	143	38
Net assets	**1**	8	1	1	2
Other	**98**	33	71	28	6
Loan investments and fixed income shares	**70**	90	176	165	114
Total	**589**	1,042	1,368	991	450

Technology portfolio value by stage (£m)					
Early stage	**589**	1,042	1,368	991	450
Late stage					
Quoted	**103**	290	723	1,074	329
Buy-outs	**294**	214	231	312	193
Growth capital	**250**	170	7	2	2
	647	674	961	1,388	524
Total	**1,236**	1,716	2,329	2,379	974

The early stage portfolio comprises investments in immature businesses which typically require further funding. The late stage portfolio comprises investments in more mature, typically self funding businesses, including investments made by way of buy-outs and growth capital.

Early stage technology portfolio value by sector (£m)					
Healthcare	**195**	288	237	181	116
Communications	**112**	185	264	223	89
Electronics, semiconductors and advanced technologies	**72**	139	140	166	86
Software	**210**	430	727	421	159
Total	**589**	1,042	1,368	991	450

Realisations analysis

Analysis of the Group's realisation proceeds (excluding third party co-investment funds). The analysis below excludes divestment of non-venture capital investments in FTSE 350 companies, 31 March 2003: £nil (2002: £156 million, 2001: £49 million).

Realisations proceeds by geography (£m)	**2003**	2002	2001	2000	1999
UK	**727**	794	1,366	986	754
Continental Europe	**238**	133	181	145	98
US	**2**	10	–	–	–
Asia Pacific	**9**	2	4	1	–
Total	**976**	939	1,551	1,132	852

Realisations proceeds (£m)					
IPO	**37**	55	253	48	75
Sale of quoted investments	**110**	370	536	351	165
Trade and other sales	**493**	303	470	423	292
Loan and fixed income share repayments	**336**	211	292	310	320
Total	**976**	939	1,551	1,132	852

Realisations proceeds by FTSE industrial classification (£m)					
Resources	**60**	52	34	6	14
Industrials	**294**	193	211	197	262
Consumer goods	**192**	255	278	176	180
Services and utilities	**330**	288	338	497	378
Financials	**42**	18	33	20	18
Information technology	**58**	133	657	236	n/a
Total	**976**	939	1,551	1,132	852

n/a The current FTSE industrial classifications came into effect on 1 April 1999. Changes made included the introduction of information technology. With the exception of 1999, the classification shown analyses investment and the portfolio by FTSE classification in use at each balance sheet date.

Funds under management

(£m)	**2003**	2002	2001	2000	1999
Third party unquoted co-investment funds	**1,587**	1,995	2,131	2,261	1,470
Quoted investment companies†	**452**	761	870	818	474
Total	**2,039**	2,756	3,001	3,079	1,944

† Also includes the 3i Group Pension Plan.

Information for shareholders

Financial calendar	
Ex-dividend date	18 June 2003
Record date	20 June 2003
Annual General Meeting	11.00am 9 July 2003
Final dividend to be paid	18 July 2003
Interim dividend expected to be paid	January 2004

Shareholder profile Location of investors at 31 March 2003	
1 UK (including retail shareholders)	83.46%
2 Continental Europe	6.44%
3 US	6.73%
4 Other international	3.37%

Share price	
Share price at 31 March 2003	417p
High during the year (2 April 2002)	811p
Low during the year (9 October 2002)	407p

Balance analysis summary

Range	Number of holdings Individuals	Number of holdings Corporate bodies	Balance as at 31 March 2003	%
1 – 1,000	28,603	3,846	16,559,435	2.71
1,001 – 10,000	6,770	2,511	21,168,608	3.47
10,001 – 100,000	194	646	30,214,167	4.95
100,001 – 1,000,000	21	373	131,242,917	21.48
1,000,001 – 10,000,000	0	100	290,082,185	47.48
10,000,001 – highest	0	7	121,650,941	19.91
Total	35,588	7,483	610,918,253	100.00

The table above provides details of the number of shareholdings within each of the bands stated in the Register of Members at 31 March 2003.

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

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA
Telephone +44 (0)870 600 3953

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc, including requests for further copies of the Annual Report and accounts, please contact:

Group Communications
3i Group plc
91 Waterloo Road
London SE1 8XP
Telephone +44 (0)20 7928 3131
Fax +44 (0)20 7928 0058
email ir@3igroup.com
or visit our new investor relations website **www.3igroup.com** for full up-to-date investor relations information including the latest share price, recent annual and interim reports, results presentations and financial news.

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3i Group plc
91 Waterloo Road
London SE1 8XP
England
Telephone +44 (0)20 7928 3131
Fax +44 (0)20 7928 0058
Website www.3igroup.com

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