Press release

3i Group plc

3i Group plc announces

Interim results for the six months ended 30 September 2001 and organisational changes

30 October 2001

Introduction

3i announces today its interim results for the six months to 30 September 2001 and some organisational changes.

Summary of results

- Net asset value per share fell by 22.6% to 631p largely as a result of the falls in the smaller company and technology public quoted markets.
- 3i has outperformed the FTSE SmallCap total return and the FTSE techMARK 100 indices which were down 24.1% and 40.2% respectively.
- New investment of £600 million is broadly in line with realisations.
- Revenue profit of £69 million was unchanged, after making a provision for the costs of organisational changes.
- The interim dividend is unchanged at 4.9 pence per share.

Sir George Russell, Chairman of 3i Group plc, commenting on the results, said: “In this more challenging environment, I am confident that 3i’s portfolio diversity, international network and sound finances will enable us to strengthen our market position.”

Operating Review

3i has continued to develop its business in line with its objective to be the leading international venture capital company with a strong position in all the major venture capital markets.

Over the six months to 30 September, 3i has completed its network in Europe, opened an office in Hong Kong and continued to grow its business in the United States.

3i's strategic priorities are developing the strength of its network, ensuring that it has a balanced business between early and later stage investment and having the resources to support its portfolio companies.

The value of the international network continues to grow as knowledge, experience and contacts are increasingly shared across the business. Industry sector and product teams have continued to develop across the Group. This adds value to the investment process and to portfolio companies.

These developments are now being supported by some organisational changes. Rod Perry, Director, will take on responsibility for technology investment across the business, co-ordinating the market approach and delivering best practice in all sectors. Jonathan Russell will take on a similar responsibility for the larger management buy-out business. Martin Gagen, Director of the US business, will also take on responsibility for activities in Asia Pacific.

The 3i business model which combines our local knowledge with sector expertise has continued to strengthen and a more focussed approach to the management of the portfolio has been developed. These approaches require a minimum level of resourcing that is not feasible in some of the smaller locations and seven offices in the UK and continental Europe will be closed. 3i will then have 36 offices operating in 16 countries.

In the current uncertain conditions, it is prudent to maintain a strong balance sheet. Investment is likely to remain at about the current level for the next year. As a result of this and very low staff turnover, fewer people are needed to meet expected levels of investment. Following a wide ranging review of our staffing needs, 3i is announcing today a reduction in staffing of 185 people, representing about 17% of its staff.

Financial review

Net asset value fell by 22.6% during the period. This represents an outperformance of the FTSE SmallCap total return and FTSE techMARK 100 indices, which were down 24.1% and 40.2% respectively.

Almost all of the fall in net asset value is due to an unrealised reduction in the valuation of the portfolio. Revenue profit after tax was maintained at the same level as the same period last year at £69m after making a provision for the costs of organisational changes. 3i has, despite a falling stock market, continued to realise equity investments at above their valuation at 31 March 2001.

Most of the fall in the valuation of the portfolio results directly from the falls in smaller company and technology stock markets, much of which occurred in September. This has reduced the valuation of 3i's quoted portfolio and also the valuation of the unquoted portfolio as the average price earnings ratio used in earnings based valuations has fallen from 9.7 at 31 March to 7.9 at 30 September. This is the lowest average price earnings ratio used by 3i to value its portfolio at any time since its flotation in 1994 when the average price earnings ratio was 14.0. In addition, there has been an increase in provisions, largely resulting from increased early stage investment over the last two years and more difficult economic conditions.

New investment has been reduced from last year, broadly in line with realisations. Overall, realisations proceeds exceeded investment by £115m. As a result of the acquisition of Atle, a leading Swedish venture capital investor for £330m, there was a net cash outflow of £220m in the period. The balance sheet remains strong.

Summary

The results for the six months to September are an outperformance of the FTSE SmallCap and the FTSE techMARK 100 indices. The fall in net asset value results largely from the falls in smaller company and technology stock markets and, to a lesser extent, from an increase in provisions. The majority of the portfolio continues to perform satisfactorily.

Brian Larcombe added "Our longer term view of the venture and management buy-out markets remains very positive. There is uncertainty about the industry outlook in the short term, but on a medium term view, we expect that the market will return to its growth path.

The Group continues to strengthen the working of its international network. The changes announced today will reinforce our capabilities in industry sectors and products and support the development of the network. The balance sheet is strong which enables 3i to take advantage of good investment opportunities in the markets in which it operates."

- ends -

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Notes to Editors

3i brings capital, knowledge and connections to the creation and development of businesses around the world. It invests in a wide range of opportunities from start-ups to buy-outs and buy-ins, focusing on businesses with high growth potential and strong management. 3i invests in businesses across three continents through local investment teams in Europe, Asia Pacific and the USA.

The Interim Results press release, the presentation and speeches given by Brian Larcombe, Chief Executive and Michael Queen, Finance Director, announcing the Interim Results will be published from 10:30: 30 October 2001 on 3i's website: www.3i.com/investor.

Chairman's statement

Over the last year, most major economies have been slowing down and this trend has accelerated in recent months. The steep fall in the quoted smaller company and technology markets has particularly affected 3i's return for the six months. The Directors have announced an unchanged interim dividend of 4.9p.

In this more challenging environment, 3i's portfolio diversity, international network and financial strength are particularly important. We are committing significant resources to managing our investments and assisting our portfolio companies, as well as taking advantage of good investment opportunities at lower price levels.

We are continuing to strengthen our competitive position and the development of our teams with specialist skills across our international network. We are closing seven smaller offices so that all our offices will have the critical mass needed to be part of our international network. This change, together with further steps to reduce our staffing levels, enables 3i to match opportunities and resourcing in the short term while building a strong platform from which to move forward.

I will be retiring from 3i at the end of December after nearly 10 years. 3i has changed enormously during my involvement, from a primarily UK business to an international venture capital company while retaining the same strong core values. My time at 3i has been challenging, interesting and exciting; sometimes all three at once.

I have thoroughly enjoyed working with the people at 3i and being part of this great company. Sarah Hogg who succeeds me as Chairman on 1 January 2002, has been a Director of 3i since 1997 and has already made a valuable contribution to the Board. I am proud of the growth 3i has achieved and its long term financial performance and I have every confidence that this will continue under its new Chairman.

Sir George Russell
Chairman
29 October 2001

Operating and financial review

A general slowdown in economies, particularly difficult conditions in some technology sectors and weak public stock markets for smaller companies have all made an impact on returns in this period.

Net asset value has fallen by 22.6%, an outperformance of the FTSE SmallCap (-24.1%) and the FTSE techMARK 100 (-40.2%).

Most of this fall results directly from the decline in smaller company and technology stock markets, much of which happened in September. Our portfolio has generally performed satisfactorily and, for that part of the portfolio which is valued on an earnings basis, there has been a small increase in overall earnings. This has not resulted in higher valuations as these assets are valued by reference to price earnings multiples based on the smaller company quoted markets which are now at the lowest point for many years.

Over the last two years, we have invested significantly in early stage companies where both the potential rewards and the risks of failure are high. It has always been the case that many of the weaker companies will fail before the winners come through and, as a result, provisions have increased.

The short term outlook for business confidence remains weak, but when it recovers, the strongest performing businesses will be those operating in high growth markets. The venture capital industry saw a very high level of activity last year, but this has fallen sharply since the summer. There are still substantial funds available for investment in the management buy-out market although there are now signs that the pricing of transactions is beginning to fall. In the technology markets many of the new entrants have either retreated or have left the market entirely. This has also led to better pricing and has enabled 3i to maintain its leading market position.

In the six months to 30 September 2001, we invested at a lower level. We have also seen lower levels of realisations as a result of the subdued mergers and acquisitions market and stock markets being virtually closed to new issues.

Our strategy is unchanged. We continue to invest in a broad range of businesses which have high growth potential, using our network to add value to our investment process and to our portfolio. This strategy produces a portfolio which is well balanced by sector, maturity of company and geography. This is not the first time we have experienced difficult conditions and we will continue to invest through the cycle. Venture capital is a long term business.

The 3i business model of combining our local knowledge with sector expertise has continued to strengthen. Our increasing focus on specific sectors, such as healthcare and oil and gas, has led to the further development of specialist teams within the network. We have also developed a more focused approach to the management of the portfolio.

These approaches require a minimum level of resourcing that is not feasible in some of our smaller locations and seven offices in Europe will be closed. We will then have 36 offices operating in 16 countries.

Our longer term view of the venture and management buy-out markets remains very positive. There is uncertainty about the industry outlook in the short term, but on a medium term view, we expect that the market will return to its growth path.

Despite this, the slowdown in activity means that our current staffing levels are too high and we have announced 185 job losses.

With the acquisition of Atle in Sweden in April 2001 and the opening of an office in Copenhagen, we have now completed our European network. We have also opened an office in Hong Kong.

This international network is unique in the venture capital industry and provides great benefits to us and our portfolio companies. Its value continues to grow as we share knowledge, experience and contacts across the business. Industry sector and product teams have continued to develop across the Group. This adds value to our investment process and to our portfolio companies. These developments are now being supported by some organisational changes. Rod Perry, Director, will take on responsibility for our technology investment across the business, co-ordinating our market approach and delivering best practice in all sectors. Jonathan Russell will take on a similar responsibility for our larger management buy-out business. Martin Gagen, Director of our US business, will also take on responsibility for our Asia Pacific business.

Financial review

Total return

Total return for the six months to 30 September 2001 was £(1,097) million, which represents a reduction of 22.1% on shareholders' funds at 31 March 2001. This result is due almost entirely to a fall in the valuation of the portfolio. Most of this fall results directly from the decline in smaller company and technology stock markets, much of which occurred in September. Our portfolio has generally performed satisfactorily but there has been an increase in provisions for companies which may fail, largely resulting from increased technology investment over the last two years.

Our European business accounted for almost all the total return, with small negative returns in our developing businesses in the US and Asia Pacific.

Technology investments accounted for £(715) million of the total return, mainly because of a reduction in the valuation of quoted investments as well as an increase in provisions for companies which may fail. Over the past year technology companies, particularly those in the software and telecommunications sectors, have suffered a sharp contraction in demand which has resulted in significant over capacity. Non technology investments have also seen more difficult trading conditions but their total return of £(308) million is largely due to falls in price earnings ratios used to value these companies.

Revenue profit

Revenue profit before tax was £71 million, the same as in the period to September 2000. Underlying dividend income was lower than last year because of increased investment in lower income yielding assets. Dividend income of £77 million includes £31 million of dividends received on the sale or restructuring of investments (September 2000: £20 million). Fee income was £32 million which is £3 million lower than September 2000.

Administrative expenses amounted to £86 million compared with £78 million last year. The current period includes £3 million of operating expenses in respect of Atle which was acquired in the period. Expenses allocated to the capital reserve have decreased from £26 million to £23 million.

In addition, a provision of £18 million has been made for organisational changes and staff reductions. Of this, £9 million has been charged to the revenue account and £9 million to capital reserve.

Realised capital profits

Corporate mergers and acquisitions markets have been much weaker throughout the period and there has been a lower level of sales to trade buyers and far fewer Initial Public Offerings ("IPO") than in recent years.

Overall there was a net realised loss of £5 million on all investments realised compared with their valuation at 31 March 2001, (September 2000: £302 million profit), although a profit of £8 million was made on the sale of equity investments.

Proceeds from the sale of investments quoted at March 2001 amounted to £388 million and a further £14 million was received on the IPO of three companies during the period.

The sale of unquoted companies has resulted in equity proceeds of £123 million (2000: £251 million) and there were repayments of loans and preference shares of £87 million (2000: £168 million).

Overall 13% of the value of the equity portfolio at March 2001 has been realised. We have, despite a falling stock market, continued to realise equity investments at amounts over their valuation at 31 March 2001, with the average uplift on the sale of equity investments amounting to 2% (September 2000: 79%).

Unrealised value movement

There has been a net reduction of £1,060 million in the valuation of the portfolio. The main driver has been the impact of falling stock markets, which led to a reduction in value of £430 million in quoted investments held throughout the period.

In addition, the fall in smaller company stock markets has resulted in a reduction in the average price earnings ratio used for earnings based valuations of the unquoted portfolio from 9.7 at 31 March to 7.9 at 30 September. This is the lowest average price earnings ratio used to value the portfolio at any time since 3i's flotation in 1994 when the average price earnings ratio was 14. The impact of this fall in price earnings ratios is to reduce the value of the portfolio by £314 million.

There has also been a reduction in valuation of £252 million in respect of those companies that we consider may fail, compared with a reduction of £144 million last period. Investee companies' earnings used as a basis of valuation at both 31 March and 30 September 2001 have increased on average by 5%.

Investment

Total investment in the period amounted to £600 million (£498 million from 3i and £102 million from co-investment funds), 33% lower than investment to September 2000. Approximately 50% of investment has been in technology companies with 58% of this invested in existing portfolio companies.

Of total investment, 45% was in the UK, where £273 million was invested (September 2000: £496 million). In continental Europe £246 million was invested compared with £367 million last year. There has been growth in investment in the US, up to £72 million from £29 million in the period to September 2000.

Goodwill

Outstanding goodwill arising on acquisitions of technology venture capital businesses made in previous years has been amortised in full in this period rather than, as previously, over a five year term. This has resulted in a charge of £74 million (£72 million to capital reserve and £2 million to the revenue account) instead of £9 million, based on a five year amortisation period. Full amortisation of goodwill is considered appropriate as market conditions facing technology companies have become tougher. The businesses acquired are no longer trading as separate entities and have been successfully integrated into the 3i network.

Acquisition

In April, 3i together with a joint venture partner, Ratos AB, acquired Atle AB, a public company in Sweden and a leading venture capital investor. 3i's share of the consideration was £330 million. Since then most of the investments held by Atle have been transferred to either 3i or Ratos. Those transferred to 3i are included in the share and loan portfolio and the remaining investments are included as our share of joint venture assets. These assets have been valued in accordance with the 3i valuation policy.

Balance sheet and cash flow

Since 31 March 2001, the valuation of the Group's investment portfolio has fallen by £761 million to £5,044 million. This is primarily due to the high level of disposals of quoted investments and the fall in value of the remaining portfolio. As a result quoted investments now represent 10% of the total portfolio.

There has been a net cash outflow of £220 million in the period. This largely results from the acquisition of Atle for a purchase consideration of £330 million. Investment in the period, excluding co-investment funds, amounted to £498 million while the return flow from the sale and realisation of investments amounted to £613 million.

The fall in value of the portfolio and the increase in net borrowings has resulted in an increase in gearing from 22% at 31 March 2001 to 34%. Of the net borrowings of £1,316 million, £600 million has a maturity in excess of 20 years.

Summary

The results for the six months to September represent an outperformance of the FTSE SmallCap and the FTSE techMARK 100 indices. The negative total return results largely from the fall in smaller company and technology stock markets and, to a lesser extent, from an increase in provisions. The majority of the portfolio continues to perform satisfactorily.

The Group continues to strengthen the working of its international network. The balance sheet is strong which enables 3i to take advantage of good investment opportunities in the markets in which it operates.

Brian Larcombe
Chief Executive
29 October 2001

Consolidated statement of total return for the six months to 30 September 2001

	6 months to 30 September 2001 (unaudited)			6 months to 30 September 2000 (unaudited)			12 months to 31 March 2001 (audited)		
	Revenue £m	**Capital £m**	**Total £m**	Revenue £m	Capital £m	Total £m	Revenue £m	Capital £m	Total £m
Capital profits									
Net realised (losses)/ profits over opening valuation		**(5)**	**(5)**		302	302		453	453
Net unrealised value movement in the period		**(1,060)**	**(1,060)**		712	712		(676)	(676)
		(1,065)	**(1,065)**		1,014	1,014		(223)	(223)
Total operating income before interest payable	**204**		**204**	182		182	358		358
Interest payable	**(59)**	**(3)**	**(62)**	(59)	(1)	(60)	(117)	(4)	(121)
	145	**(1,068)**	**(923)**	123	1,013	1,136	241	(227)	14
Administrative expenses	**(63)**	**(23)**	**(86)**	(52)	(26)	(78)	(121)	(49)	(170)
Amortisation of goodwill	**(2)**	**(72)**	**(74)**	-	(8)	(8)	-	(18)	(18)
Cost of changes to organisational structure	**(9)**	**(9)**	**(18)**						
Return before tax and currency translation adjustment	**71**	**(1,172)**	**(1,101)**	71	979	1,050	120	(294)	(174)
Tax	**(2)**	**8**	**6**	(2)	(9)	(11)	(4)	19	15
Return for the period before currency translation adjustment	**69**	**(1,164)**	**(1,095)**	69	970	1,039	116	(275)	(159)
Currency translation adjustment	**-**	**(2)**	**(2)**	(7)	8	1	-	17	17
Total return	**69**	**(1,166)**	**(1,097)**	62	978	1,040	116	(258)	(142)
Total return per share									
Basic (pence)	**11.4p**	**(191.8)p**	**(180.4)p**	10.2p	161.7p	171.9p	19.1p	(42.5)p	(23.4)p
Diluted (pence)	**11.4p**	**(191.3)p**	**(179.9)p**	10.1p	159.5p	169.6p	18.9p	(42.0)p	(23.1)p

Movement in shareholders' funds for the six months to 30 September 2001	**6months to 30 September 2001 (unaudited) £m**	6 months to 30 September 2000 (unaudited) £m	12 months to 31 March 2001 (audited) £m
Opening balance	**4,973**	5,174	5,174
Revenue return	**69**	62	116
Capital return	**(1,166)**	978	(258)
Total return	**(1,097)**	1,040	(142)
Dividends	**(29)**	(29)	(78)
Proceeds of issues of shares	**7**	12	19
Movement in the period	**(1,119)**	1,023	(201)
Closing balance	**3,854**	6,197	4,973

Consolidated revenue statement
for the six months to 30 September 2001

	6 months to 30 September 2001 (unaudited) £m	6 months to 30 September 2000 (unaudited) £m	12 months to 31 March 2001 (audited) £m
Interest receivable on loan investments	**60**	51	99
Fixed rate dividends	**9**	12	21
Other interest receivable and similar income	**26**	20	43
Interest payable	**(59)**	(59)	(117)
Net interest income	**36**	24	46
Dividend income from equity shares	**68**	64	123
Share of net profits/(losses) of joint ventures	**8**	(1)	(2)
Fees receivable	**32**	35	72
Other operating income	**1**	1	2
Total operating income	**145**	123	241
Administrative expenses and depreciation	**(63)**	(52)	(121)
Amortisation of goodwill	**(2)**	-	-
Cost of changes to organisational structure	**(9)**		
Profit on ordinary activities before tax	**71**	71	120
Tax on profit on ordinary activities	**(2)**	(2)	(4)
Profit for the period	**69**	69	116
Dividends			
Interim (4.9p per share proposed, 2001: 4.9p per share paid)	**(29)**	(29)	(29)
Final (2001: 8.1p per share paid)			(49)
Profit retained for the period	**40**	40	38

Earnings per share			
Basic (pence)	**11.4p**	11.5p	19.2p
Diluted (pence)	**11.4p**	11.3p	18.9p

Consolidated balance sheet as at 30 September 2001

	30 September 2001 (unaudited)		30 September 2000 (unaudited)		31 March 2001 (audited)	
Assets	£m	£m	£m	£m	£m	£m
Treasury bills and other eligible bills		**1**		-		1
Loans and advances to banks		**673**		515		890
Debt securities held for treasury purposes		**216**		237		201
Debt securities and other fixed income securities held as financial fixed asset investments						
Loan investments	**1,477**		1,363		1,522	
Fixed income shares	**390**		504		434	
Equity shares						
Listed	**406**		1,869		971	
Unlisted	**2,771**		3,355		3,030	
		5,044		7,091		5,957
Interests in joint ventures						
Share of gross assets	**267**		55		46	
Share of gross liabilities	**(152)**		-		-	
		115		55		46
Goodwill		**-**		72		74
Tangible fixed assets		**60**		54		60
Other assets		**220**		253		210
Total assets		**6,329**		8,277		7,439
Liabilities						
Deposits by banks		**632**		140		617
Debt securities in issue		**1,487**		1,606		1,503
Other liabilities		**269**		285		276
Subordinated liabilities		**87**		49		70
		2,475		2,080		2,466
Called up share capital		**304**		303		304
Share premium and redemption reserve		**341**		328		334
Capital reserve		**2,917**		5,319		4,083
Revenue reserve		**292**		247		252
Shareholders' funds		**3,854**		6,197		4,973
Total liabilities		**6,329**		8,277		7,439
Net asset value per share						
Basic (pence)		**633p**		1022p		819p
Diluted (pence)		**631p**		1011p		815p

Approved by the Board
29 October 2001

Consolidated cash flow statement
for the six months to 30 September 2001

	6 months to 30 September 2001 (unaudited) £m	6 months to 30 September 2000 (unaudited) £m	12 months to 31 March 2001 (audited) £m
Operating activities			
Interest received and similar income arising from debt securities and other fixed income securities held as financial fixed asset investments	**59**	56	103
Other interest received and similar income	**26**	19	43
Interest paid on borrowings	**(56)**	(57)	(115)
Dividends received from equity shares	**68**	63	121
Fees and other net cash receipts	**34**	34	75
Operating and administrative costs paid	**(75)**	(55)	(94)
Net cash inflow from operating activities	**56**	60	133
Taxation (paid)/received	**(2)**	(2)	12
Capital expenditure and financial investment			
Investment in equity shares, fixed income shares and loans	**(493)**	(715)	(1,541)
Investment in equity shares acquired from joint venture	**(174)**	-	-
Sale, repayment or redemption of equity shares, fixed income shares and loan investments	**617**	834	1,586
Investment administrative expenses	**(23)**	(26)	(49)
Investment interest paid	**(3)**	(1)	(4)
Investment in joint ventures	**(330)**	(1)	(4)
Divestment or repayment of interests in joint ventures	**223**	22	27
Disposal of investment properties	**-**	2	2
Purchase of tangible fixed assets	**(4)**	(4)	(11)
Sale of tangible fixed assets	**-**	1	2
Net cash (outflow)/inflow from capital expenditure and financial investment	**(187)**	112	8
Acquisitions			
Acquisition of subsidiary undertakings	**(46)**	(4)	(11)
Equity dividends paid	**(48)**	(45)	(74)
Management of liquid resources	**183**	(81)	(378)
Net cash (outflow)/inflow before financing	**(44)**	40	(310)
Financing			
Debt due within one year	**(223)**	(19)	(20)
Debt due after more than one year	**241**	(31)	352
Issues of shares	**7**	12	18
Net cash inflow/(outflow) from financing	**25**	(38)	350
(Decrease)/increase in cash	**(19)**	2	40

Notes to the financial statements
for the six months to 30 September 2001

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

	6 months to 30 September 2001 (unaudited) £m	6 months to 30 September 2000 (unaudited) £m	12 months to 31 March 2001 (audited) £m
Revenue profit before tax	71	71	120
Depreciation of equipment and vehicles	4	3	8
Amortisation of goodwill	2	-	-
Increase in other assets associated with operating activities	(3)	(15)	(2)
Tax on investment income included within income from overseas companies	-	(1)	(2)
Increase in prepayments and accrued income associated with operating activities	(19)	(19)	(7)
Increase in accruals and deferred income associated with operating activities	9	20	14
Reversal of (profits)/losses of joint ventures less distributions received	(8)	-	2
Loss on sale of tangible fixed assets	-	1	-
Net cash inflow from operating activities	56	60	133

2 Reconciliation of cash flows to movements in net debt

	6 months to 30 September 2001 (unaudited) £m	6 months to 30 September 2000 (unaudited) £m	12 months to 31 March 2001 (audited) £m
(Decrease)/increase in cash in the period	(19)	2	40
Cash (inflow)/outflow from management of liquid resources	(183)	81	378
Cash (inflow)/outflow from debt financing	(1)	66	(296)
Cash (inflow) from subordinated liabilities	(17)	(16)	(36)
Change in net debt from cash flows	(220)	133	86
Foreign exchange movements	2	(9)	(17)
Movement in net debt in the period	(218)	124	69
Net debt at start of period	(1,101)	(1,170)	(1,170)
Net debt at end of period	(1,319)	(1,046)	(1,101)

3 Analysis of net debt

	1 April 2001 £m	Cash flow £m	Exchange movement £m	Other non-cash changes £m	30 September 2001 £m
Cash and deposits repayable on demand	87	(19)	-	-	68
Treasury bills, other loans, advances and treasury debt securities	1,005	(183)	-	-	822
Deposits and debt securities repayable within one year	(663)	223	4	(13)	(449)
Deposits and debt securities repayable after one year	(1,457)	(224)	(2)	13	(1,670)
Subordinated liabilities	(70)	(17)	-	-	(87)
Finance leases	(3)	-	-	-	(3)
	(1,101)	(220)	2	-	(1,319)

Basis of preparation and independent review report

Basis of preparation

The accounting policies used in the preparation of this Interim report are the same as those used in the statutory accounts for the year to 31 March 2001. The adoption of Financial Reporting Standards, which become effective for the first time during the year to 31 March 2002, will not give rise to any changes to these policies in the Accounts at 31 March 2002. The six month period is treated as a discrete period except in so far as tax in the revenue account is charged on the basis of an estimated annual effective rate.

The figures for the year to 31 March 2001 have been extracted from the accounts filed with the Registrar of Companies on which the auditors issued an unqualified report. This Interim report does not constitute statutory accounts.

Independent review report to 3i Group plc

Introduction We have been instructed by the Company to review the financial information for the six months ended 30 September 2001 which comprises Consolidated statement of total return, Consolidated revenue statement, Consolidated balance sheet, Consolidated cash flow statement and the related notes 1 to 3 and the basis of preparation. We have read the other information contained in the Interim report and considered whether it contains any apparent misstatement or material inconsistencies with the financial information.

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

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

Review conclusion On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2001.

Ernst &Young LLP
London
29 October 2001

New investment analysis

Analysis of the equity, fixed income and loan investments made by 3i Group. The analyses below exclude investments in joint ventures.

Investment by geography (3i only – excluding co-investment funds) (£m)	**6 months to 30 September 2001**	6 months to 30 September 2000	12 months to 31 March 2001
UK	**240**	409	786
Continental Europe	**179**	255	560
Asia Pacific	**7**	8	49
US	**72**	29	134
Total	**498**	701	1,529

Investment by geography (including co-investment funds) (£m)			
UK	**273**	496	1,006
Continental Europe	**246**	367	770
Asia Pacific	**9**	10	62
US	**72**	29	134
Total	**600**	902	1,972

Continental European investment (£m)			
Austria	**6**	2	19
Benelux	**62**	16	63
Denmark	**4**	-	4
Finland	**12**	1	3
France	**27**	72	117
Germany	**76**	121	301
Ireland	**2**	10	17
Italy	**8**	35	64
Spain	**25**	84	131
Sweden	**20**	5	9
Switzerland	**4**	21	26
Other European[1]	**-**	-	16
Total	**246**	367	770

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

Investment by product (£m)			
Start-ups	**56**	140	278
Management buy-outs	**179**	261	617
Management buy-ins	**7**	39	88
Growth capital	**313**	392	852
Share purchase	**14**	56	90
Recoveries	**31**	14	47
Total	**600**	902	1,972

Number of investments by product

	6 months to 30 September 2001	6 months to 30 September 2000	12 months to 31 March 2001
Start-ups	**56**	120	187
Management buy-outs	**33**	36	64
Management buy-ins	**10**	9	14
Growth capital	**210**	212	369
Share purchase	**11**	26	34
Recoveries	**41**	37	58
Total	**361**	440	726

Investment by FTSE industrial classification (£m)

Resources	**13**	53	67
Industrials	**60**	115	256
Consumer goods	**84**	150	371
Services and utilities	**254**	178	482
Financials	**11**	19	55
Information technology	**178**	387	741
Total	**600**	902	1,972

Technology investment by sector (£m)

Life sciences and healthcare	**62**	51	136
Communications and networking	**81**	79	224
Electronics and other technologies	**36**	49	76
e Business	**28**	92	185
Software and computer services	**94**	288	485
Total	**301**	559	1,106

Portfolio analysis

The Group's equity, fixed income and loan investments total £5,044 million at 30 September 2001. The analyses below exclude investments in joint ventures.

Portfolio value by geography (including co-investment funds) (£m)	At 30 September 2001	At 31 March 2001
UK	**4,023**	4,792
Continental Europe	**1,914**	2,039
Asia Pacific	**99**	98
US	**261**	246
Total	**6,297**	7,175

Portfolio value by geography (3i only – excluding co-investment funds) (£m)		
UK	**3,382**	4,121
Continental Europe	**1,321**	1,363
Asia Pacific	**86**	86
US	**255**	235
Total	**5,044**	5,805

Continental European portfolio value (£m)		
Austria	**12**	18
Benelux	**85**	92
Denmark	**10**	10
Finland	**17**	5
France	**220**	254
Germany	**400**	456
Ireland	**22**	45
Italy	**119**	142
Spain	**192**	234
Sweden	**190**	11
Switzerland	**40**	82
Other European[1]	**14**	14
Total	**1,321**	1,363

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

Portfolio value by FTSE industrial classification (£m)		
Resources	**256**	232
Industrials	**920**	1,081
Consumer goods	**1,058**	1,237
Services and utilities	**1,443**	1,538
Financials	**236**	256
Information technology	**1,131**	1,461
Total	**5,044**	5,805

Portfolio value by valuation method (£m)

	At 30 September 2001	At 31 March 2001
Imminent sale or IPO	**32**	106
Listed	**406**	818
Secondary market	**115**	266
Earnings	**815**	1,033
Cost	**1,125**	1,078
Net assets	**165**	147
Other	**520**	401
Loan investments and fixed income shares	**1,866**	1,956
Total	**5,044**	5,805

Technology portfolio value by sector (£m)

Life sciences and healthcare	**451**	526
Communications and networking	**350**	400
Electronics and other technologies	**162**	203
e Business	**176**	220
Software and computer services	**750**	980
Total	**1,889**	2,329

Technology portfolio value by valuation method (£m)

Imminent sale or IPO	**5**	44
Listed	**238**	475
Secondary market	**105**	248
Earnings	**66**	69
Cost	**874**	841
Further advance	**209**	227
Net assets	**2**	1
Other	**91**	79
Loan investments and fixed income shares	**299**	345
Total	**1,889**	2,329

Funds under management (£m)

Third party unquoted co-investment funds	**1,960**	2,131
Quoted investment companies[1]	**656**	870
Total	**2,616**	3,001

[1] Includes the 3i Group Pension Plan.

Ten largest investments

At 30 September 2001, the Directors' valuation of the ten largest investments was a total of £414 million. These investments cost £339 million.

Investment (date first invested) and description of business	Cost £m (Note 1)	Proportion of equity shares held	Directors' valuation £m (Note 1)
Go Fly Ltd (2001) Low cost airline			
Equity shares	1	43.3%	1
Loans	57		57
	58		**58**
Beltpacker plc (2000) Manufacture/marketing of healthcare/beauty products, footwear and accessories			
Equity shares	12	35.6%	12
Loans	38		38
	50		**50**
Nordisk Renting AB (2001) Renting business in real estate			
Equity shares	58	35.0%	47
	58		**47**
Mettis Group Ltd (1999) Manufacture and sale of forgings			
Equity shares	1	40.0%	1
Loans	43		43
	44		**44**
Weston Medical Group plc (Note 2) **(1993)** Needle-free medical device manufacture			
Equity shares	1	17.8%	43
	1		**43**
General London Construction Holdings Ltd (2001) Regional housebuilder			
Equity shares	1	41.6%	1
Loans	41		41
	42		**42**
ERM Plc (2001) Environmental consultancy			
Equity shares	1	42.4%	1
Loans	35		35
	36		**36**
Target Express Holdings Ltd (2000) Freight transport by road			
Equity shares (Note 3)	-	33.8%	-
Loans	33		33
	33		**33**
Morse plc (Note 2) **(1995)** Leading technology integrator			
Equity shares	9	21.5%	32
	9		**32**
Venture Production Company Ltd (1997) Oil and gas production			
Equity shares	8	23.3%	29
	8		**29**

Notes

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

2 Quoted company (including secondary markets).

3 The cost and Directors' valuation of the equity held of Target Express Holdings Ltd is £106,000.

Note 1

The statutory accounts for the year to 31 March 2001 were filed with the Registrar of Companies on 9 August 2001. The auditors' report on those statutory accounts was unqualified and did not contain any statement under Section 237 (2) or (3) of the Companies Act 1995.

Note 2

The Interim report 2001 will be posted to shareholders on 9 November 2001 and thereafter copies will be available from the Company Secretary, 3i Group plc, 91 Waterloo Road, London SE1 8XP.

Note 3

The interim dividend will be payable on 2 January 2002 to holders of shares on the register on 30 November 2001. The ex-dividend date will be 28 November 2001.

Note 4

Investment statistics referred to in this announcement relate to investments made by 3i Group and third party co-investment funds unless otherwise stated.