Press Release
3i Group plc

Preliminary statement of annual results for the year to 31 March 2003

For further information regarding the announcement of 3i's full year results to 31 March 2003 please see www.3iGroup.com

15 May 2003

Results

- Diluted net asset value per share of 480p
- Recommended final dividend of 8.6p per share, making a total dividend for the year of 13.5p (2002: 13.0p), an increase of 3.8%
- Total return of a negative 23.7% on opening shareholders' funds, compared with a negative total return of 29.8% for the FTSE All-Share index
- £931 million invested (including co-investment funds)

Baroness Hogg, chairman of 3i Group plc, said:

"Despite difficult markets, 3i has generated strong realisations at good profits and the Board is recommending an increased dividend. Although 3i's net asset value has fallen, it has done so by less than our benchmark indices. The changes we have made to the business have sharpened our competitive position and provide a good base for growth."

Financial Overview

- A negative return of 23.7% represents an outperformance of the FTSE100, FTSE All-Share, FTSE SmallCap and MSCI Europe indices.

- Revenue profit after tax of £140 million.

- Realisation proceeds on the sale of assets of £976 million generated realised capital profits of £184 million. Equity realisations were made at an uplift of 34% over opening values.

- Investment in the year was £931 million. There has been a 37% increase in investment in the second half reflecting the better opportunities to invest.
- Net cash inflow of £170 million.
- The fall in value of 3i's investment assets was £1,165 million, mainly resulting from falling stock markets and value reductions in respect of companies in technology sectors.

Commenting on the outlook, 3i's chief executive, Brian Larcombe, said:

"Although we are cautious about the short-term market environment, we are confident about the prospects for the business."

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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 US. To date, 3i has invested over £14.5 billion (including co-investment funds).

Chairman's statement

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%. 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.

Baroness Hogg
Chairman
14 May 2003

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 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.

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 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 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.

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 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.

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 54% to €3.72 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 40% 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.

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 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.

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.

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.

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 small 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, 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 small 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.

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).

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.

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.

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 FRS17 in full has been deferred by the Accounting Standards Board. FRS17 has not been fully implemented in these accounts.

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 euro 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
Finance Director
14 May 2003

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)
Small 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)

Consolidated statement of total return
for the year to 31 March 2003

	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		**184**	**184**		(39)	(39)
Unrealised (losses) on revaluation of investments		**(1,165)**	**(1,165)**		(890)	(890)
		(981)	**(981)**		(929)	(929)
Total operating income before interest payable	**298**	**10**	**308**	355	-	355
Interest payable	**(57)**	**(53)**	**(110)**	(114)	(6)	(120)
	241	**(1,024)**	**(783)**	241	(935)	(694)
Administrative expenses	**(64)**	**(89)**	**(153)**	(121)	(50)	(171)
Amortisation of goodwill	**-**	**-**	**-**	(2)	(71)	(73)
Cost of changes to organisational structure	**(5)**	**(5)**	**(10)**	(9)	(9)	(18)
Return before tax and currency translation adjustment	**172**	**(1,118)**	**(946)**	109	(1,065)	(956)
Tax	**(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

	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	**96**	113
Fixed rate dividends	**17**	19
	113	132
Other interest receivable and similar income	**34**	46
	147	178
Interest payable	**(57)**	(114)
Net interest income	**90**	64
Dividend income from equity shares	**106**	111
Share of net (losses)/profits of joint ventures	**(1)**	9
Fees receivable	**46**	56
Other operating income	**-**	1
Total operating income	**241**	241
Administrative expenses and depreciation	**(64)**	(121)
Amortisation of goodwill	**-**	(2)
Cost of changes to organisational structure	**(5)**	(9)
Profit on ordinary activities before tax	**172**	109
Tax on profit on ordinary activities	**(32)**	(3)
Profit for the year	**140**	106
Dividends		
Interim (4.9p per share paid, 2002: 4.9p per share paid)	**(29)**	(29)
Final (8.6p per share proposed, 2002: 8.1p per share paid)	**(52)**	(49)
Profit retained for the year	**59**	28
Earnings per share		
Basic (pence)	**22.9p**	17.4p
Diluted (pence)	**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	2003 £m	2003 £m	2002 £m	2002 £m
Treasury bills and other eligible bills		**1**		1
Loans and advances to banks		**527**		563
Debt securities held for treasury purposes		**283**		191
Debt securities and other fixed income securities held as financial fixed asset investments				
Loan investments	**1,336**		1,408	
Fixed income shares	**228**		324	
	1,564		1,732	
Equity shares				
Listed	**187**		413	
Unlisted	**2,188**		2,964	
	2,375		3,377	
		3,939		5,109
Interests in joint ventures				
Share of gross assets	**104**		133	
Share of gross liabilities	**(81)**		(98)	
		23		35
Intangible fixed assets				
Goodwill		**-**		-
Tangible fixed assets		**45**		50
Own shares		**44**		54
Other assets		**64**		61
Prepayments and accrued income		**73**		69
Total assets		**4,999**		6,133
Liabilities				
Deposits by banks		**423**		519
Debt securities in issue		**1,350**		1,339
Other liabilities		**56**		53
Accruals and deferred income		**173**		181
Provisions for liabilities and charges		**10**		12
Subordinated liabilities		**51**		84
		2,063		2,188
Called up share capital		**305**		305
Share premium account		**349**		342
Capital redemption reserve		**1**		1
Capital reserve		**1,940**		3,021
Revenue reserve		**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		**19**		27
Commitments		**270**		411

Approved by the Board
Baroness Hogg
Brian Larcombe
Directors
14 May 2003

Consolidated cash flow statement
for the year to 31 March 2003

	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	**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 investment	**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	**-**	(51)
Equity dividends paid	**(78)**	(78)
Management of liquid resources	**15**	293
Net cash flow before financing	**178**	181
Financing		
Debt due within one year	**(104)**	(394)
Debt due after more than one year	**(32)**	165
Issues of shares	**7**	10
Net cash flow from financing	**(129)**	(219)
Increase/(decrease) in cash	**49**	(38)

Notes to the financial statements

for the year to 31 March 2003

1 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

2 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)

3 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)**

Notes to the preliminary announcement

Note 1
The statutory accounts for the year to 31 March 2003 have not yet been delivered to the Registrar of Companies. The statutory accounts for the year to 31 March 2002 were filed on 3 September 2002. The auditors' reports on these statutory accounts are unqualified and do not contain any statements under Section 237(2) or (3) of the Companies Act 1985. This announcement does not constitute statutory accounts.

Note 2
The final dividend will be payable on 18 July 2003 to holders of shares on the register on 20 June 2003.

Note 3
Copies of the Report and accounts 2003 will be distributed to shareholders on or soon after 30 May 2003.

Note 4
Investment statistics referred to in this preliminary announcement relate to investments made by 3i Group and third party co-investment funds unless otherwise stated.

New investment analysis

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

	2003	2002	2001	2000	1999
Investment by geography (3i only – excluding co-investment funds) (£m)					
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[1]	**6**	2	16	26	3
Total	**436**	446	770	422	241

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

	2003	2002	2001	2000	1999
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.

	2003	2002	2001	2000	1999
Portfolio value by geography (including co-investment funds) (£m)					
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[1]	**8**	10	14	14	-
Total	**1,175**	1,373	1,363	1,049	495

[1] 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

	2003	2002	2001	2000	1999
Buy-out portfolio value by valuation method (£m)					
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).

	2003	2002	2001	2000	1999
Realisations proceeds by geography (£m)					
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[1]	**452**	761	870	818	474
Total	**2,039**	2,756	3,001	3,079	1,944

[1] Also includes the 3i Group Pension Plan.

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.