



**Baroness Hogg** Chairman

## Chairman's statement

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

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

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

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

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

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

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

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

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

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

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

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



**Baroness Hogg**  
Chairman  
14 May 2003