

Remuneration report

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

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

Remuneration Committee

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

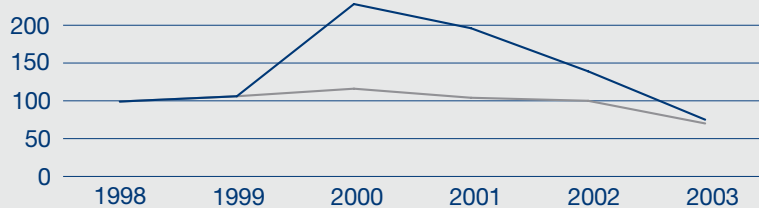
Activities during the year The Committee met six times during the year to consider remuneration policy and to determine, on behalf of the Board, the specific remuneration packages for each of the executive Directors. In addition, the Committee considered and made recommendations to the Board on the Company's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

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

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

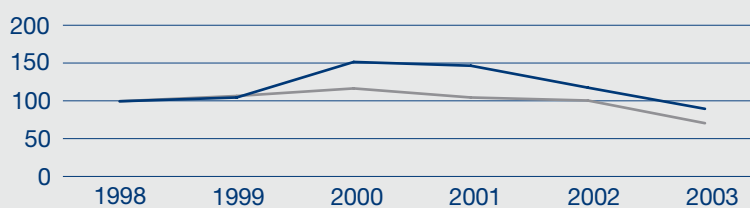
The right hand graph below compares the diluted net asset value per share at each of the last five financial year ends (with dividends reinvested) against the total shareholder return of the FTSE All-Share Index on those dates. This has been included because changes in net asset value per share relative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

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



■ 3i ■ FTSE All-Share

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



■ 3i diluted NAV (with dividends reinvested) ■ FTSE All-Share

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

Directors' remuneration policy

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

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

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

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

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

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

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

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

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

- (a) The 3i Group Discretionary Share Plan (the "Discretionary Share Plan"); and
- (b) US carried interest plans.

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

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

Directors' remuneration during the year

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

Notes

- 1 Annual cash bonuses relate to the year to 31 March 2003 and are expected to be paid in July 2003.
- 2 During the year, Mr M M Gagen was based in the US on an expatriate assignment. Of the salary paid £310,000 was pensionable under the 3i Group Pension Plan and the balance represented expatriate salary supplements and allowances.
- 3 The non-cash elements of executive Directors' remuneration packages (shown in the column headed "benefits in kind") were company cars and fuel (Mr R W Perry and Dr R D M J Summers), health insurance (all of the executive Directors), life insurance premiums (Mr M M Gagen) and taxation advice (Mr M M Gagen).
- 4 Following his ceasing to be a Director and during the year Dr R D M J Summers had use of a company car and fuel (estimated monetary value: £4,713). During the year Lord Camoys was given a retirement gift at a cost of £2,000. Mr W J R Govett, a former Director, was paid £5,000 in respect of his directorship of Gardens Pension Trustees Limited, one of the trustees of the 3i Group Pension Plan.

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

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

Options to subscribe for shares continued

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

The performance condition has not yet been met for those options shown in italics.

* Awarded before appointment as a Director.

† Of these options half became exercisable on the date shown and half became exercisable three years from that date.

Notes

- Options normally only become exercisable if the performance conditions referred to below are met.
- Options granted in 1993 and 1994 were granted under The 3i Executive Share Option Plan (the “1984 Plan”) and are normally exercisable between the third and tenth anniversaries of the date of grant save that half of the options granted were not normally exercisable before the sixth anniversary. These options are normally exercisable only if the net asset value per share on the last day of the financial period ending immediately before the third anniversary of the date of grant or on the last day of any financial period thereafter, is equal to or in excess of the net asset value per share on the date of grant compounded by the respective annual percentage movement in the Retail Prices Index (“RPI”).
- Options granted between 1 January 1995 and 31 March 2001 were granted under The 3i Group 1994 Executive Share Option Plan (the “1994 Plan”) and are normally exercisable between the third and tenth anniversaries of the date of grant provided a performance condition has been met over a rolling three year period. This requires that the adjusted net asset value per share (after adding back dividends paid during the three year performance period) at the end of the three year period is equal to or in excess of the net asset value per share at the beginning of the period compounded annually over the period by the annual increase in the RPI plus 4%.
- Options granted after 31 March 2001 were granted under The 3i Group Discretionary Share Plan (the “Discretionary Share Plan”) and are normally exercisable between the third and tenth anniversaries of the date of grant to the extent a performance target has been met over a performance period of three years from the date of grant. If, however, the minimum threshold for vesting is not achieved in the first three years from grant, the performance period is extended to four and then five years from the date of grant but from the same base year. The performance target applicable to options granted since 31 March 2001 is set out in the table below:

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

Notes continued

- 5 The performance conditions referred to above were based on increases in net asset value so as to enable a significant proportion of executive Directors' potential remuneration to be linked to an increase in the assets of the Company. The intention has been to approximate to the performance conditions attached to carried interest schemes in the venture capital market whilst retaining the essential feature of aligning executives' interests with those of the Company's shareholders. The Committee determines whether the performance conditions have been fulfilled on the basis of calculations which are reviewed by the Company's auditors. The minimum target of RPI +5%, and the maximum target of RPI +10% for options granted since 31 March 2001, were chosen as being appropriately demanding in the prevailing market conditions at the time.
- 6 Following their ceasing to hold office as Directors, Dr R D M J Summers and Mr P B G Williams are permitted to exercise outstanding options under The 3i Group Discretionary Share Plan (being those granted in 2001 and 2002) within six months of the performance condition being satisfied and to exercise outstanding options under the 1994 Plan (being the balance of their outstanding options) within 12 months of ceasing to hold office.
- 7 For US legal and regulatory reasons, in 2001 Mr M M Gagen was granted phantom share options (contractual rights to payments in circumstances designed to mirror the effect of an option to acquire shares under the Discretionary Share Plan) on the same terms and conditions as share options granted to other Directors in that year. The details of these phantom share options are set out in the table below:

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

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

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

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

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

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

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

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

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

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

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

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

Notes

- 1 In the case of Dr R D M J Summers and Mr P B G Williams, 31 December 2002, being the date of leaving service.
- 2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving, payable from age 60, except for Dr Summers and Mr Williams. For Dr Summers and Mr Williams, the figures shown are the difference between the amount of immediate pension granted to them on their leaving service and the amount of the deferred pension to which they would have been entitled if they had left on 31 March 2002.
- 3 The pensions shown, except for Dr Summers and Mr Williams, are deferred pensions payable from age 60. Dr Summers's and Mr Williams's figures represent the immediate pension granted on their leaving service, which was equal to their then accrued pensions reduced for early payment.
- 4 The transfer values have been calculated on the basis of actuarial advice in accordance with relevant professional guidance (Actuarial Guidance Note GN11 (version 8.1)) and, in the case of Dr Summers and Mr Williams reflect the benefits taken on early retirement.
- 5 Additional voluntary contributions are excluded from the above table.
- 6 The transfer values have been calculated on the basis of actuarial advice in accordance with relevant professional guidance (Actuarial Guidance Note GN11 (version 8.1)) and, in the case of Dr Summers and Mr Williams, reflect the benefits due to be paid after 31 March 2003 only.

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

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

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

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

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

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

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

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

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

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

* Awarded before appointment as a Director.

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

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

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

* Awarded before appointment as a Director.

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

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

By order of the Board

Baroness Hogg
Chairman

14 May 2003