

## Chief Executive's statement

# “much-improved portfolio health, good uplifts in value and strong realisation profits”

### Results

I am pleased to report good results for the year with a total return of £531 million.

This significant improvement follows a three year period of substantial change for 3i, during which we refocused the investment business, restructured and slimmed down the organisation, and strengthened our investment processes. These changes, together with our continued international growth, are now delivering much-improved portfolio health, good uplifts in the value of the portfolio and strong realisation profits.

3i continues to lead the European market in our three chosen segments of mid-market buy-outs, growth capital and early stage technology (“venture capital”).

As the year progressed, we increased the momentum of investment activity, which resulted in almost £1 billion being invested during the year, including co-investment funds.

For the year, our buy-out and growth capital businesses generated returns of 22.4% and 26.8% respectively. Our venture business delivered a substantial improvement, with a return of (6.0)%, though its return was broadly break-even before the impact of currency translation losses.

Our overall return of 18.1% can compare with performance data, produced by Thomson Venture Economics, which shows an overall return for European private equity and venture capital funds of (1.4)% for calendar year 2003. Although the data is not strictly comparable, it does suggest that 3i is performing well within the top quartile of the industry.

3i's return compares with returns of 25.7% and 31.0% on the FTSE 100 and FTSE All-Share total return indices respectively. It is normal that our returns lag an upturn in quoted markets. This is because the valuations of 3i's



A handwritten signature in black ink, appearing to read 'Brian Larcombe', set against a blue background.

**Brian Larcombe**  
Chief Executive  
12 May 2004

unquoted investments are generally based on historical earnings and our venture capital assets are not marked up in line with a rise in quoted markets.

### Market conditions

Market conditions and business confidence have improved steadily since the beginning of the financial year. The improvement in capital markets and mergers and acquisition activity encouraged a rise in investment activity as companies began to return to growth agendas. The new issues market remains quiet across Europe, with only a small number of significantly-sized IPOs being achieved.

### Strategy and competitive advantage

3i's development in recent years has been built on the four key elements of our strategy: developing the business internationally, building a balanced investment business, using the network as a key competitive advantage and investing in growth companies.

Today, 3i is active in Europe, Asia Pacific and the US, with 42% of our assets now outside the UK. Of our investment in the year, 51% was in continental Europe and a further 10% in the US and Asia Pacific.

Buy-outs account for 53% of assets, growth capital 35% and venture capital 12%.

3i's network of relationships around the world continues to deliver significant competitive advantage and is integral to all that we do. Market access, the ability to convert opportunities into good investments, add value to our portfolio companies and realise value, all depend upon it.

Our strategy of investing in companies with significant potential to grow is increasingly appropriate in a low inflation and more internationally competitive environment.

### Strategy implementation

We have continued to drive improvement throughout the business, particularly investment focus, in ensuring the best from the network and in further efficiency programmes.

The combination of increased productivity and a smaller number of companies in the portfolio enabled a reduction in headcount of 13% from 858 to 750 during the year.

A further change during the year was that our teams in Bristol, Glasgow and Leeds are now focused on portfolio management. We are also in the process of moving our teams in Padua and Nantes back to Milan and Paris respectively.

Across our three activities, 3i's scale has allowed us to develop a multi-specialist approach which can deliver the best resource to new business opportunities and from the management of key relationships with major companies and professional advisers.

A good illustration of this is our ability, within industry sectors, to bring together the chief executives of our portfolio companies and directors of the leading international businesses. This provides origination opportunities and creates value for our portfolio companies.

The establishment of specialist teams is especially clear in our venture business. This is now focused on nine of our offices, located in the main technology hubs within Europe, the US and Asia Pacific and coordinated by sector leadership teams in healthcare, software, communications and ESAT (electronics, semiconductors and advanced technologies).

### Outlook

3i has withstood some of the most volatile market conditions that I have seen in my 30 years in the industry and has come through strongly. It is a leader in its industry and one of the few genuinely international businesses with competitive scale. The general macroeconomic drivers look more favourable, the business model is delivering in each of our three key areas of activity: buy-outs, growth capital and venture capital and the business has the people, the network and the capital strength to grow significant value for our shareholders.

I would like to thank the Board, the staff and our shareholders for the tremendous support I have enjoyed in leading 3i. I would also pay tribute to the entrepreneurs who build the businesses that our industry supports and acknowledge it is largely their visions that provide our opportunity.

**“3i is in great shape and well positioned to grow value for our shareholders”**