

## A year of progress on many fronts



3i's business, balance sheet and board have all developed considerably this year. The results for the Company are a good financial performance and strong cash flow, an enhanced competitive position and opportunities to grow value for shareholders in the years ahead. In summary, a year of progress on many fronts.

Our very high level of realisations has afforded the opportunity to return £500 million to our shareholders, thus improving our capital efficiency, without compromising our ability to grow.

Each of our Buyout, Growth Capital and Venture Capital businesses has improved its competitive position in the year. Our strategy of developing the business internationally has progressed well and some 48% of 3i's portfolio value is now outside the UK.

A total return of £512 million for the 12 months to 31 March 2005 represents a 15.9% return on opening shareholders' funds, marginally better than both the FTSE All-Share (15.6%) and the FTSE 100 (15.4%) total return indices in the same period, and ahead of 3i's share price.

The Board is recommending a final ordinary dividend of 9.3p, making a total ordinary dividend of 14.6p, an increase of 4.3% from 14.0p last year.

Looking forward, the Board intends to achieve the return of an additional £500 million to shareholders through a combination of special dividend and share repurchases. The Board therefore proposes to pay a special dividend of 40.7p per share (approximately £250 million) as soon as practicable after the Annual General Meeting on 6 July. The Board also proposes that the balance of about £250 million be returned to shareholders through a programme of on-market share buybacks beginning in July. Resolutions relating to both the special dividend and buyback proposals will be put to shareholders at an Extraordinary General Meeting we plan to hold immediately following the Annual General Meeting.

In my interim report to you I noted that the appointment of Philip Yea as Chief Executive in July 2004 was widely welcomed and that Philip had made a number of organisational changes in the autumn of 2004. These changes have positioned the business for growth, enhancing the linkage between our business lines and geographic markets and ensuring that 3i continues to attract, retain and develop the best talent.

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Simon Ball joined 3i in February and succeeded Michael Queen as Finance Director on 1 April 2005, the date when Michael formally became responsible for 3i's Growth Capital business. Rod Perry, who has done a tremendous job with our Venture Capital business since he became responsible for it in 2001, retires from the Board at our Annual General Meeting in July at the age of 60. He will be succeeded by Jo Taylor, who will join our Executive Committee in July. Rod's Human Resources responsibilities have been taken on by Denise Collis, who joined 3i and the Executive Committee in November.

I was also delighted to welcome Sir Robert Smith and Dr Peter Mihatsch as non-executive Directors to the Board in September 2004. Sir Robert brings a wealth of experience from the City and industry and has substantial private equity experience. Peter brings an extensive knowledge of German business as well as insights gained from growing a major international telecommunications business. 3i now has non-executives from the US, France and Germany, all countries where we have significant interests.

As ever, the macroeconomic prospects are complicated by global imbalances and shifts in the pattern of growth. 3i is, however, well placed to take advantage of these. We are already securing access to growth capital opportunities in India and China and our Venture Capital business is able to exploit its network in the US, Asia and Europe. Meanwhile, the pace of restructuring in Europe is accelerating.

A year of such good progress at 3i is the result of a team effort and I would like to pay tribute to three groups of people in particular. First, our teams around the world, who have worked with skill and determination to deliver these results. Second, the managers of our portfolio companies, who are the ultimate drivers of 3i's value, and third, the many people who work with 3i around the world to find, invest and grow businesses with us.



Baroness Hogg  
Chairman  
11 May 2005

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