Chief Executive's statement

"With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value."

Philip Yea
Chief Executive
10 May 2006

I am pleased to report a very good set of full year financial results and further progress in implementing the plans we set for the business over the past 18 months. In particular, these results provide tangible evidence of the continued success of our Buyout business and the benefits of the recent strategic changes made to the models for our Growth Capital and Venture Capital business lines.

Financing markets continue to be favourable, with the private equity markets giving high valuations to good assets. These conditions have provided the opportunity for us to achieve a record level of realisations and also realised profits. All of our business lines have been active sellers into these markets. Yet, at the same time, each of our three core business lines has increased its level of new investment. The most notable increase was within the Growth Capital business, reflecting its focus on larger deal sizes when compared to a year ago and the growing importance of Asia within our strategy.

The rate of growth in private equity markets over the last decade has, for many people, raised genuine questions as to the sustainability of returns and the relative advantages of this ownership model as the asset class becomes more mainstream. We continue to believe that there is more than ample opportunity and that the key issue for the Group is to leverage its competitive advantage in those particular markets which provide greatest returns over the mid term.

Our teams in Asia have been strengthened, our teams in the US are being reinforced and, more indirectly, we have made a number of investments in selected funds which can bring exposure to specific geographies or asset classes that we cannot achieve on our own.

We have recently completed a comprehensive strategic review of both our current and future business areas within the private equity field and, where appropriate, will continue to use our balance sheet to develop new business lines, and our knowledge-sharing culture and market access to attract new people to join us.

As part of this review, we have also looked in detail at the opportunities and structure of each of our current business lines. We have concluded that we should increase the mix of late-stage investment within our Venture Capital business, an area which particularly plays to our international differentiation. As a result of this change we have amended our cash-to-cash IRR target for this business line to 25%, with vintage year volatility of plus or minus 15%. We have also confirmed the opportunity for both this business and our Growth Capital business within the US, and are building our local teams accordingly.

I am very pleased with the further steps we have taken on our people agenda.

In a rapidly growing industry where experience is critical and personal compensation at the most senior levels is performance related and uncapped, it is critical to ensure that both the financial and non-financial elements of our people proposition are as competitive as they can be. To supplement the carry schemes which we have implemented across our business lines, we have also introduced market aligned co-investment schemes whereby members of our investing team make personal investments alongside 3i and third-party investors' capital.

We have also made further changes to our internal organisation to ensure that we give our investing teams maximum flexibility to operate as self-standing partnerships with the same operational flexibility as their competitors, yet enable them to be both the beneficiaries of and contributors to the network of knowledge sharing that differentiates 3i from most firms within our field. Our Business review which follows, contains a number of examples showing this culture of cross-geography cross-business line co-operation at its very best.

To reflect the ambitious nature of our agenda, we have also created a Group Partnership, which brings together those senior business leaders who can make the broadest contribution to the further development and expansion of the firm.

The recent move of our London office to more modern premises has had a significant impact in terms of communications and produced an enhanced experience for visitors to 3i, as well as an improved working environment.

We have also reviewed our capital requirements over the coming period and, notwithstanding the significant level of opportunity we have identified, we believe it is appropriate to make a further return of cash to shareholders. Although accounting for the equity option within the Convertible Bond issued in 2003 has, under IFRS, reduced reported profits (and will continue to do so if we are successful in delivering shareholder value through an increase in the share price), the flexibility to satisfy the Bond redemption in 2008 in either cash or shares provides a significant equity cushion should realisation markets slow for any reason.

Markets remain favourable and, although we expect our levels of realisations in the new financial year to be below last year's exceptional levels, we expect to increase our level of investment again if the present economic conditions continue.

With another very good set of results behind us, a detailed strategy for the future, and confidence high within the organisation, we remain determined to accelerate the development of 3i to deliver further shareholder value.