

Chairman's statement



“Further good progress”

3i achieved further good progress in the first half of this financial year, with investment and realisations both above last year's levels. The total return in the six months to 30 September was £447 million, amounting to 12.1% of opening shareholders' funds. This compares with a return of £224 million, or 6.8%, in the first half of the last financial year, and £501 million, or 15.2%, in the full year to 31 March 2005. Our Buyout and Growth Capital teams both achieved returns above our targets, and there was a further improvement in the return from our Venture Capital business.

During the period, we executed the return of capital approved by shareholders in July. As well as our normal final dividend of 9.3p per share, we made a special dividend payment of 40.7p per share, followed by a share consolidation, and have been actively repurchasing shares in the market. At 9 November we had repurchased nearly £200 million, some 79% of our target. The Directors have now announced an interim dividend of 5.5p per share.

We benefited in this period from a marked increase in carried interest receivable on the European funds we manage. In addition, the revival in equity markets over the period improved the overall value of our assets; while the strength of the financing markets enabled our Buyout and Growth Capital teams to realise investments at excellent rates of return. It also helped the team managing our large portfolio of smaller minority investments to make significant progress in reducing the number of these, with a pleasing increase in the rate of return. Moreover, the Venture Capital team succeeded in more than doubling its level of realisations with some notable uplifts in value. In total, we realised £1,041 million compared with £603 million in the first half of last year.

There was also a significant increase in the level of investment, to a total of £706 million in the six months compared with £422 million in the same period last year. 3i's international network enables us to identify opportunities that meet our exacting standards even in these markets. Our Growth Capital team's focus on larger investments helped them to double their level of investment compared with the first half of last year.

These six months also saw progress in the execution of the strategy that our Chief Executive, Philip Yea, laid out to shareholders in the spring. We continued to build capabilities in Asia, forming our team in India and opening our office in Shanghai. In Europe, our Infrastructure team is now up and running. These developments have been accelerated by the attraction of new talent to work within our experienced and successful teams.

As 3i's activities have become more international, so our ability to combine global industry knowledge with specialised investment expertise and local understanding has increased. Our diversity and flexibility will be of particular advantage when the outlook for output, inflation and interest rates is uncertain. The strength of our balance sheet, the breadth of our portfolio and the quality of our people enable us to combine scale with agility and ambition with rigour, in fast-changing markets.

Baroness Hogg
Chairman
9 November 2005