Chief Executive's statement

"Strong all-round performance"

Our purpose:
to provide quoted access to private equity returns.

Our vision: to be the private equity firm of choice;
– operating on a world-wide scale;
– producing consistent market-beating returns;
– acknowledged for our partnership style; and
– winning through our unparalleled resources.

In my last report to you in May this year, I wrote that I intended to report further good progress towards our performance and strategic goals.

The figures reported for the first six months of this year show a strong all-round performance. Our gross portfolio return of £521 million represents 12.1% on opening portfolio value and is at the top of the range of our long-term targets. Buyouts and Growth Capital achieved returns of 13% each. Our Venture Capital business delivered further progress at 8% and SMI generated a strong return of 12% over the period.

Our total return of 12.1% on opening shareholders' funds compares with 6.8% for the equivalent period a year ago, helped by the performance of the Eurofund III buyout fund, which has now moved to a position where we can recognise carried interest receivable on funds we manage.

In very buoyant financing markets, our Buyout business has been both a disciplined investor and an active seller. Realisations totalled £379 million (2004: £218 million). Investment, 57% of which was in continental Europe, was £358 million (2004: £200 million). Recent investments, which illustrate the breadth of our pan-European Buyout business, include: Giochi Preziosi, a leading Italian manufacturer and distributor of toys; Aviapartner, a Belgian airline ground handling business; and Wendt, a leading German manufacturer of precision tools.

Our Growth Capital business benefited from a strong investment pipeline at the start of the period, but aggregate investment levels at £286 million (2004: £143 million) also reflect the strategic changes being implemented within the business, as it increasingly focuses on larger individual investments. We invested £46 million in I^2, as part of a £158 million commitment to this UK infrastructure fund. We also made our first growth capital investment in India, providing £26 million to Nimbus, a media and entertainment services company. The level of realisations was also strong, including Mölnlycke Health Care and Revus Energy, which delivered some excellent realised profits.

Our Venture Capital business was focused on realisations to deliver cash returns. Consequently, investment of £58 million (2004: £72 million) was substantially exceeded by the level of realisations of £120 million (2004: £58 million).

3i's SMI team, which is responsible for managing the disposal of our smaller minority investments, delivered an excellent performance, generating £161 million of cash proceeds from 131 portfolio companies.

The consequence of these individual business line performances is that we had a strong level of investment overall of £706 million (2004: £422 million), with an excellent level of realisations of £1,041 million (2004: £603 million). As a result, despite returning £396 million of cash to shareholders, our gearing at the end of the period was 20%.

As these figures demonstrate, we have a clear investment model for today and a strong determination to continue to deliver returns through the economic cycle and as we grow in new areas in the future.

It is increasingly important to build 3i's differentiation through the ways in which we share information and relationships across the areas in which we operate. We are making excellent progress in achieving this both across geographies and business lines and, in particular, in integrating our newer teams into our worldwide network. In addition, we are actively exploring the opportunity to invest in growth equity situations within the US as a way of further building value for our shareholders.

The following report shows further good evidence of progress on our agenda of delivering the present while building for the future.

We have made a good start to the second half, in terms of both new investments and realisations. Although the pipeline of potential new investments is not as strong as six months earlier, we continue to originate attractive opportunities across our business lines. Favourable exit conditions seem set to continue over the near term and should enable us to realise well in the second half, although perhaps not at the exceptional levels we achieved in the first half.

Philip Yea
Chief Executive
9 November 2005