

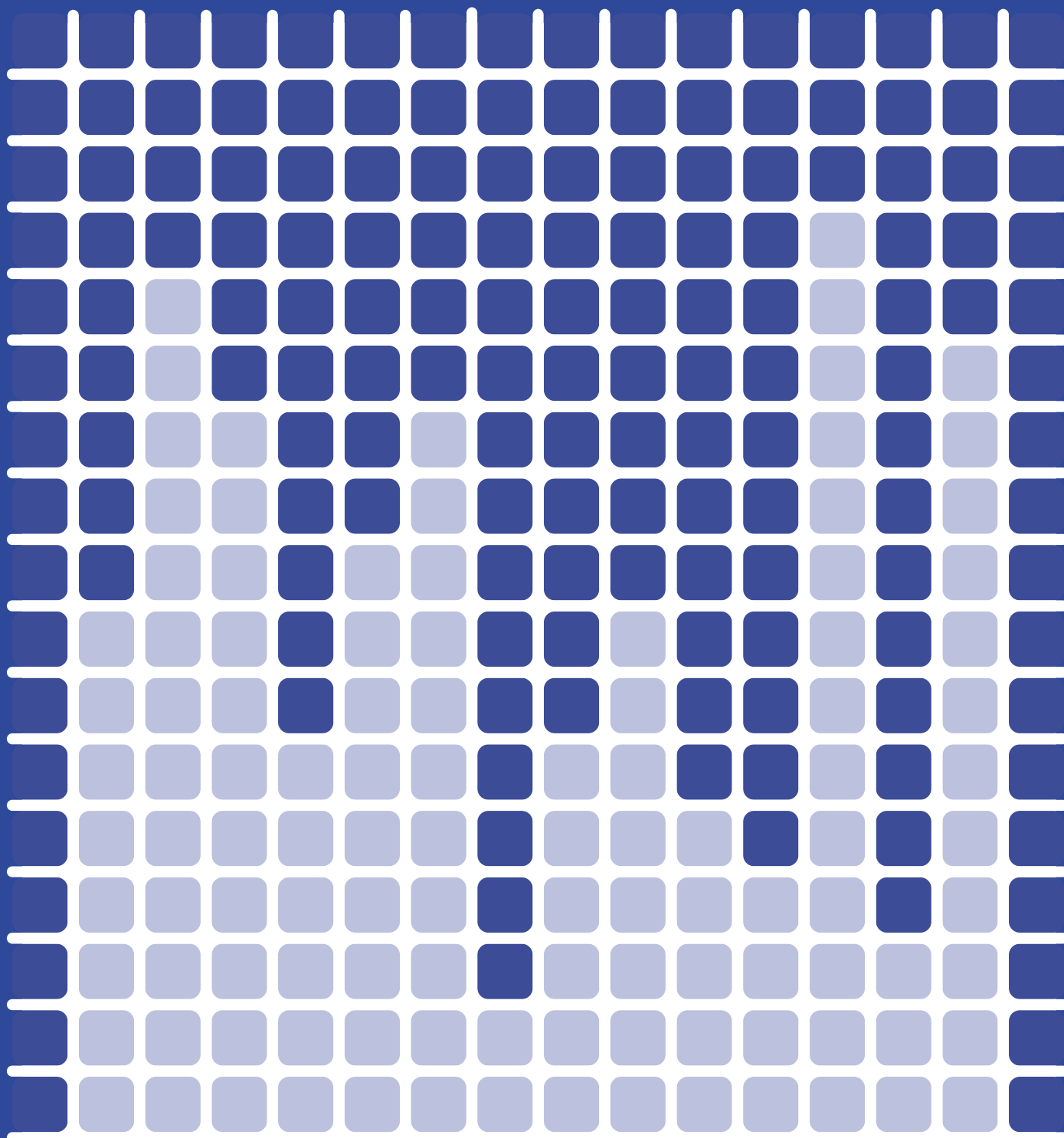
A business confidence survey amongst
3i backed companies across Europe



The world is yours

3i European Enterprise Barometer

Number 22, Quarter 4 2004



“Welcome to the 3i Enterprise Barometer, the quarterly survey of business confidence amongst 3i-backed companies.

3i is Europe's leading private equity and venture capital company, helping to create and develop successful independent businesses around the world. It first published the survey in 1988 as a barometer of its UK investments. In 1998 the survey was extended to include European companies in line with 3i's European expansion, and since mid-2001 all survey statistics have been published and contrasted in the same document. Since 2003 this survey also includes 3i-backed companies in Denmark, Finland and Sweden, treated as a 'Nordic' region.

The barometer provides a current indication of business confidence, the political and economic climate in which each business operates, and the outlook for turnover, investment and profitability.

This independent research is now a benchmark for financial and economic commentators. We hope you will find it of interest.”

Philip Yea

Chief Executive
3i Group plc

Key Results

In Europe as a whole, the 3i Barometer Index is down a little, but optimism about 3i companies' own prospects is up.

- The 3i European Barometer Index has fallen from +30 in July to +23 in this survey, carried out in September 2004. The balance remains higher than at this time last year (Chart 1). The Index summarises 3i-backed companies' views on the business and political climate.
- The Index has risen in France, Germany and Italy and fallen in the UK, Spain and (by a small margin) in the Nordic countries (Chart 2).
- The French Index has risen twice in a row, to its highest since early 2001. The Index in Germany and Italy has not regained the level of six months ago. The Spanish Index was the highest six months ago but is now the lowest. The Nordic Index is practically unchanged and is the highest, as in four of the most recent five surveys.
- The UK Index has become negative, for the first time in five surveys.
- Although the overall Barometer Index has fallen, 3i-backed companies as a whole are more optimistic about their own immediate turnover, profitability and investment prospects. A balance of +50% expect their turnover to be higher in the final quarter of 2004 than in the third quarter, the highest for two and a half years.
- Turnover expectations by country have generally moved in the same direction as the Index. In France, Germany and Italy the Index and optimism have both increased. In the UK and Spain, where the Index has fallen sharply, optimism is also down, but only a little.
- German profitability expectations are at a record high.
- The balance of 3i-backed companies expecting to have increased employment during the calendar year has continued to rise, from +22% at the beginning of the year to +30% now.

Chart 1: 3i European Barometer Index, historical series (weighted by GDP)

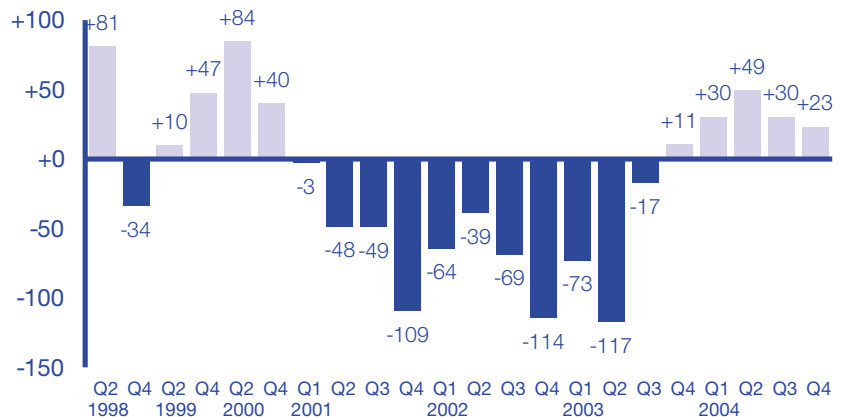


Chart 2: 3i European Barometer Index, by country

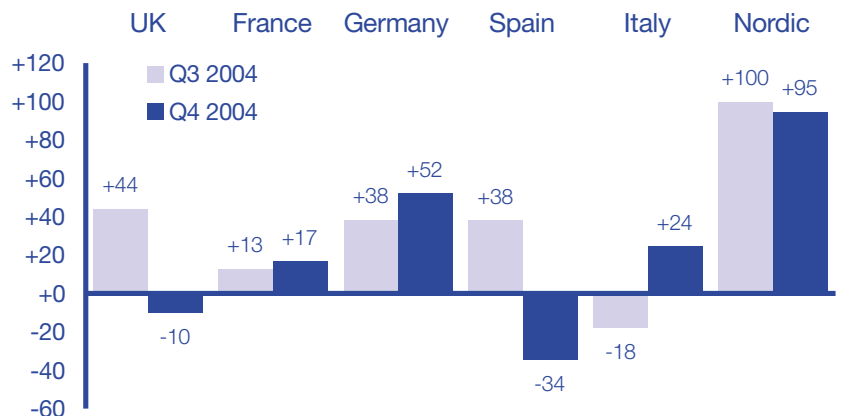
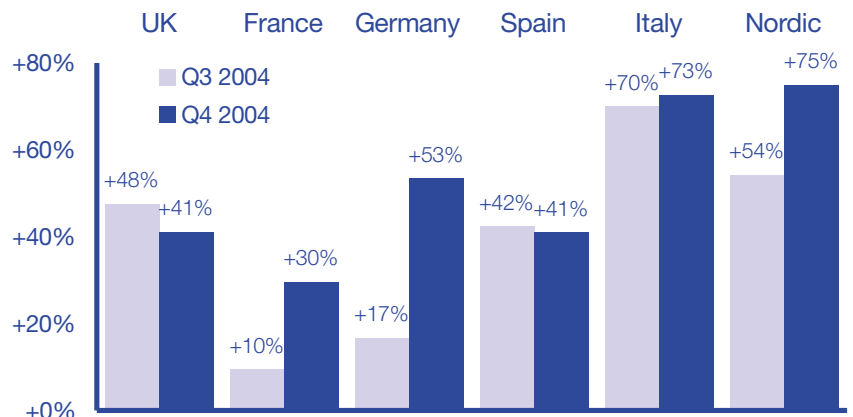


Chart 3: Balance of respondents expecting an increase in turnover over current quarter



3i European Barometer Index

The 3i Barometer Index has improved in France, Germany and Italy but worsened in the UK and Spain.

3i European Barometer Index

Chart 1 (page 2) shows that the overall 3i European Barometer Index has again fallen, though by less than in the previous survey. Between the middle of 2003 and the middle of 2004 the Index rose in every survey, from a low of -117 to a peak of +49. In the survey of three months ago the overall Index fell to +30 and now has slipped again, to +23.

The Index summarises European 3i-backed companies' views on the general business and political climate.

The Index remains positive, is higher than it was at this time last year and well above the levels to which it fell between 2001 and 2003. However, the fall in the Index in the previous survey clearly cannot be dismissed as a one-off blip.

Index by Country

As is common during turning points in the economic cycle, the Index is following different paths in different countries.

Chart 2 (page 2) shows that the Index has in this survey improved in France, Germany and Italy but fallen in the UK and Spain (it is practically unchanged in the Nordic countries).

In the previous survey, France was the only country in which the Index rose

significantly. In this survey the French Index has continued to creep upwards. Although the increase is only four percentage points, compared with 48 in the previous survey, this follows a number of years when the French economy was going through particularly difficult times and means that the Index is at its highest level since the beginning of 2001. Official figures confirm that the French economy is recovering. The French quarter-on-quarter GDP growth rate jumped to +0.8% in the first quarter of 2004 and the most recent available figures show that this rate was maintained in the second quarter, which was better than generally forecast. The increase over the past year jumped from +1.7% in the year to the first quarter to +3.0% in the year to the second quarter.

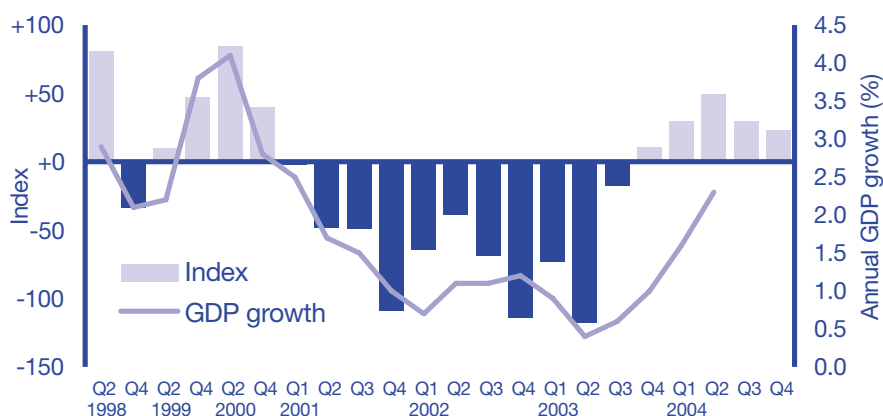
The improvements in Germany and Italy follow sharper falls in the previous survey and so in both cases the Index remains below its level of six months ago. German GDP grew by 0.5% in the second quarter of 2004, the strongest result since the beginning of 2001. However, this was due to strong export performance while domestic demand appears to have stagnated. German unemployment increased twice as sharply as expected in September. The Italian economy remains weak, though the GDP growth rate did rise from +0.7% to +1.1% in the year to the second quarter.

In the UK the Index slipped only slightly in the previous survey, but this time it has fallen more sharply and become negative for the first time in five surveys. The Bank of England Governor has commented, since questionnaires for this survey were completed, that there are signs that the UK economy is "experiencing a softer patch". GDP figures for the third quarter are expected to confirm a slowdown.

In Spain the Index has dropped from a peak of +105 six months ago to -34 now, with the rate of fall being similar in each of the past two surveys. Spain has gone from being the most positive country on this measure six months ago to the most negative now. This is the first time the Spanish Index has been negative in eighteen months (though it was much lower then, at -139). Although the most recently available figures on GDP growth rates show fairly robust growth in Spain (+2.6% over the year to the second quarter of 2004), the rate has been slowing since the end of 2003.

The Index in the Nordic region (Denmark, Finland, Sweden) is again relatively unchanged. It has fallen by just five percentage points, returning it to the same level as six months ago. Nordic 3i-backed companies remain the most positive on this measure, as they have been in four out of the past five surveys.

Chart 4: 3i European Barometer Index, compared with EU15 real GDP annual growth rate for equivalent quarter (source: Eurostat)



GDP Predictor

Chart 4 shows that official figures for the GDP growth rate of the European Union, released some months in arrears, have tended to follow a similar pattern to the 3i European Barometer Index.

In the second quarter of 2004 the annual growth rate of GDP across the 15 member states of the pre-enlargement European Union continued to rise, from 1.6% to 2.3%, mirroring the rise in the 3i Barometer Index, which peaked in the second quarter. It remains to be seen whether the GDP growth rate will now fall, as the Barometer Index has done.

UK Historical Perspective

The 3i Enterprise Barometer survey has been running in the UK for ten years longer than in the rest of Europe, meaning that the UK results can be seen in a longer historical perspective.

Chart 5 shows that after just a year of being positive, the UK Index has become negative again.

During 2004, the Bank of England raised UK interest rates by a whole percentage point, to 4.75% in August. Although GDP growth remained strong in the second quarter (up +3.6% over the year), a subsequent slowing in the economy has been acknowledged and since August interest rates have been unchanged.

Only time will tell whether the UK authorities are able to control the economy sufficiently to keep growth within a sustainable zone, limiting the fall in the Barometer Index. Alternatively, a downturn may ensue, sending the UK Barometer Index deeply negative, as has happened on every other occasion in the survey's seventeen year history that the Index has crossed the x-axis.

UK Index by Sector

Chart 6 shows that the UK Barometer Index has fallen by similar amounts for manufacturers and non-manufacturers.

The balance for non-manufacturers remains higher than that for manufacturers, as it has been in every survey bar one since 1996.

The Index for UK manufacturing is now negative again, as it was between the middle of 2000 and the end of 2003.

UK Index by Region

The UK Barometer Index remains lowest in the Midlands of the UK (as it has been for over three years) and highest in the South.

The differences between the regions has narrowed, however, with the balance falling most sharply in the South (Chart 7).

Chart 5: 3i UK Barometer Index, historical series

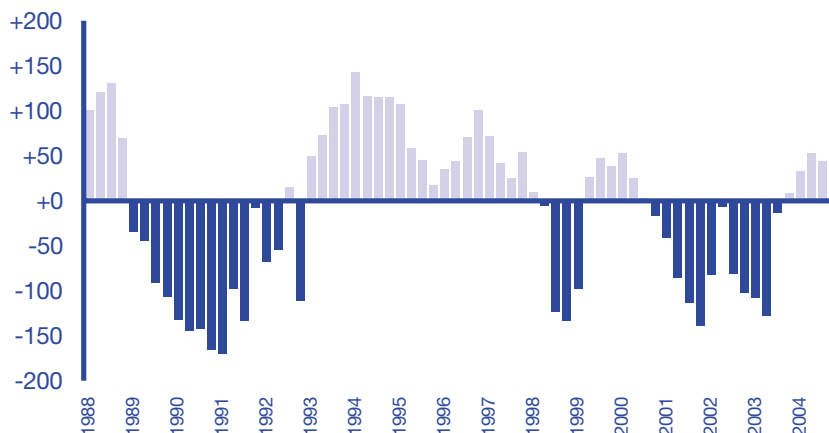


Chart 6: 3i UK Barometer Index, by sector

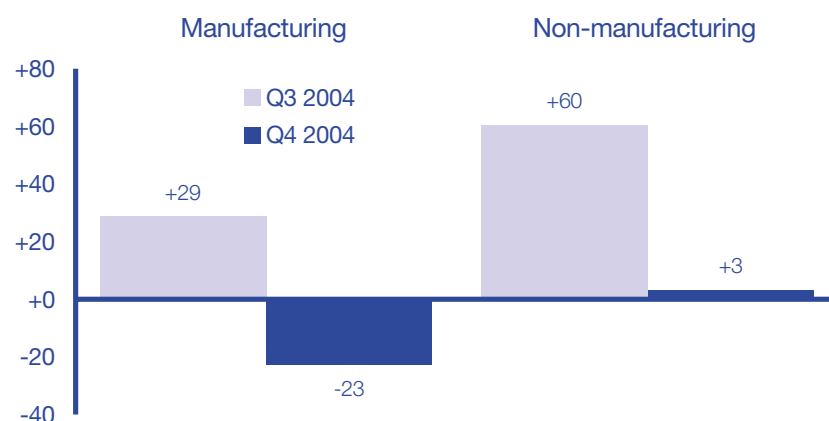
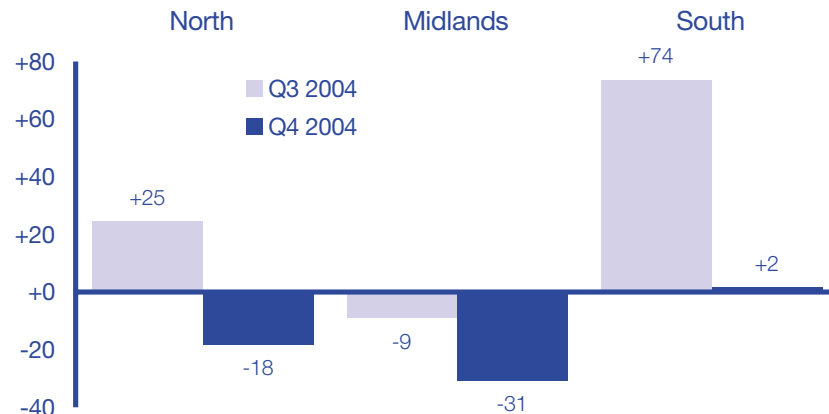


Chart 7: 3i UK Barometer Index, by region



Components of the Index

The 3i European Barometer Index is constructed from the answers to three questions: whether the business and political climate is more or less favourable to starting new businesses; expanding existing business activity; and growth by acquisition. The responses to these questions are detailed here.

The results are weighted by GDP in each country and re-based to give a summary of the overall mood of 3i-backed companies about the general business and political climate.

The base of the Index has been set to make it comparable with the long-running UK Barometer Index.

Change in Index Components

Chart 8 shows that each of the three Barometer components has shown only a small drop since the previous survey.

Starting New Businesses

The most significant change in the overall balances of the Index components is that for starting a new business. In contrast to the previous survey, those European 3i-backed companies which believe that the business and political climate has become less favourable to starting new businesses now outnumber those reporting it more favourable (Chart 8). The balance had been just positive for the past two surveys (though it had been negative throughout the preceding three and a half years). The overall balance is at its lowest for a year, though it remains well above the levels to which it fell between 2001 and 2003.

The balance has fallen most sharply in Spain (Chart 9), where over a half of 3i-backed businesses now believe the business climate less favourable to new business than a year ago and only 18% believe it more favourable. This is the first negative balance for this question in Spain for eighteen months.

The balance has also fallen significantly and become negative in the UK, to a level a little lower than at this time last year.

In the previous survey France was the only country where this balance rose (from a low of -43%). This time a fraction of those gains have been lost, with those believing the climate more favourable matched by those believing it less so.

Although still negative, the balance for Italy is the best for a year. The balance is up just a little in Germany and practically unchanged in the Nordic countries, which remain the most positive on this measure.

Chart 8: Components of Barometer Index - balance of all European respondents (weighted by GDP) considering business and political climate more favourable to:

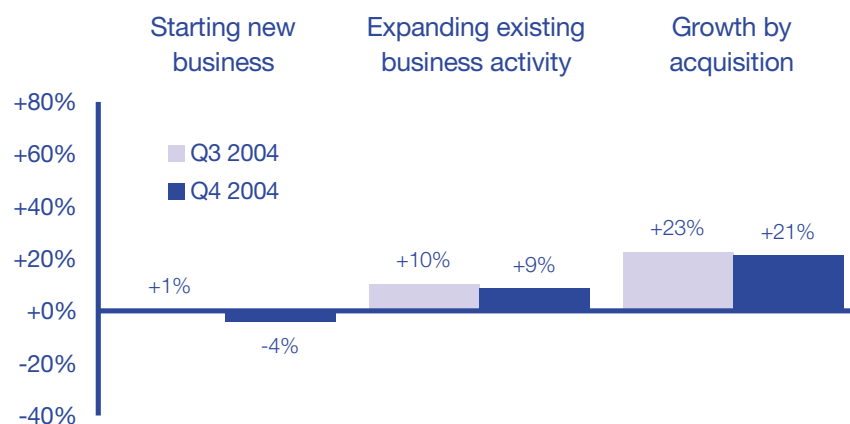
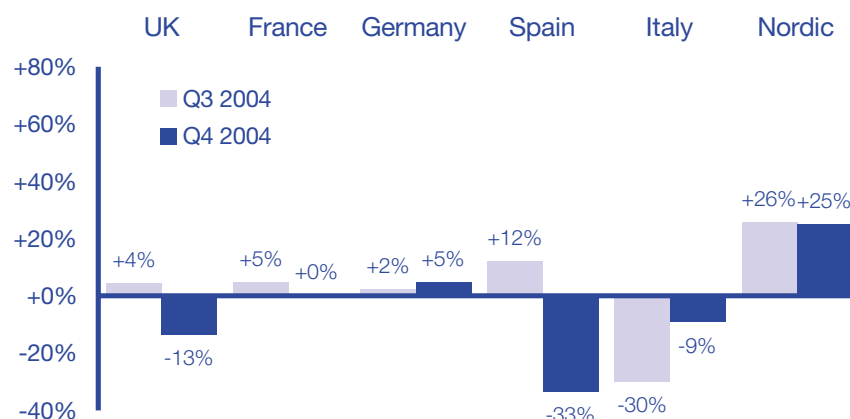


Chart 9: Balance of respondents considering that, compared with a year ago, the business and political climate is more favourable to starting new businesses



Expanding Existing Business Activity

The overall balance of 3i-backed companies across Europe which believe the business and political climate is more favourable to expanding existing business activity is practically unchanged (Chart 8), but Chart 10 shows that this conceals significant changes in individual European countries.

After five successive increases, the balance in the UK has fallen sharply, to a level lower than at this time last year. Those manufacturers which believe the climate has worsened now outnumber those which believe it has improved (-4%). The balance for non-manufacturers has also fallen but remains positive (+7%). Similarly, the balance has become negative for those in the Midlands (-11%) and North (-4%), but remains positive in the South (+9%).

As with the new business question, the balance for France has lost a small portion of the gains it made in the previous survey (when it was the only one to increase). France remains, for the fifth survey in succession, the only country where more 3i-backed companies believe that the climate for expansion has worsened than believe it has improved.

Although the balance in Spain is down to its lowest in eighteen months, it remains positive. The balances in Germany and Italy are up, but have not made up all of the losses in the previous survey, remaining lower than six months ago. The balance for the Nordic countries is, however, at its highest in the two years the survey has been running there.

Growth by Acquisition

The European balance for the question on growth by acquisition is down just slightly, from +23% to +21%. Chart 11, however, shows that the balance in Spain has fallen sharply and become negative (-8%) for the first time in eighteen months. The UK balance is also at its lowest in eighteen months, though the balance remains just positive.

The balance in France is up to the same level as six months ago while in Italy the balance is up, but not as high as six months ago. The balance in the Nordic countries is down compared with the previous survey, but remains relatively high.

The increase in the balance in Germany is slight but this was from an already high level and is the highest balance there in four years.

Chart 10: Balance of respondents considering that, compared with a year ago, the business and political climate is more favourable to expanding existing business activity

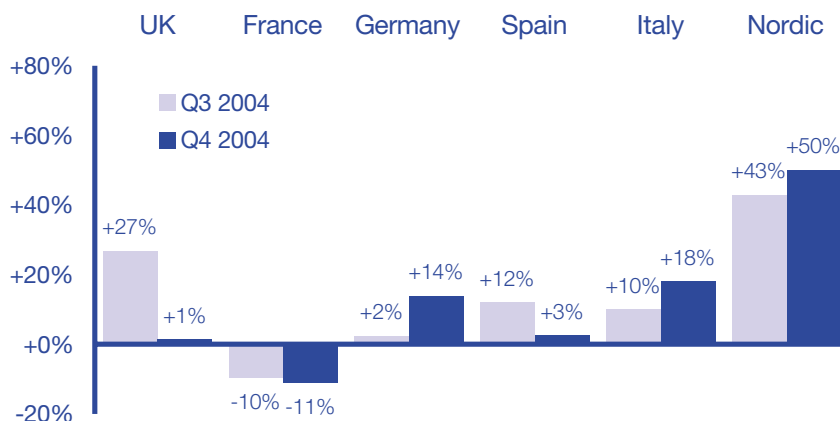
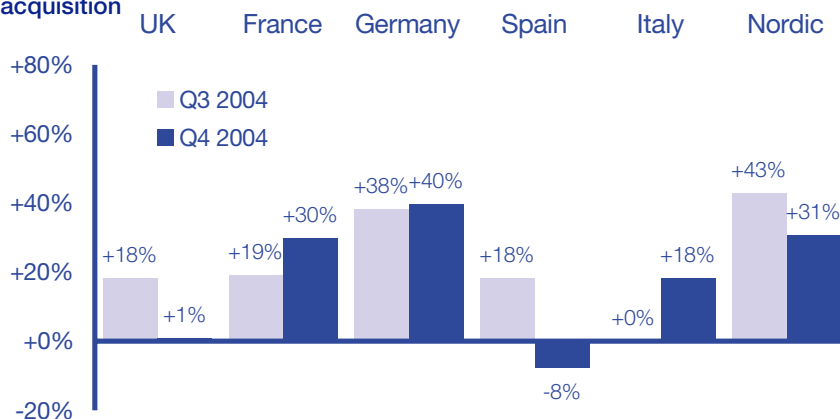


Chart 11: Balance of respondents considering that, compared with a year ago, the business and political climate is more favourable to growth by acquisition



Outlook for 3i Companies

3i-backed companies' optimism about their own prospects is up, despite the fall in the Barometer Index.

Overall Expectations

Chart 12 shows that the balances of European 3i-backed companies expecting increases in their turnover, profitability or investment during the current quarter have all risen since the previous survey. The biggest increase is in the balance expecting their turnover to be higher in the final quarter of 2004 than it was in the third quarter.

Historical Perspective

Chart 13 shows that the balance expecting an increase in their turnover is at its highest in two and a half years.

The balance expecting an increase in their profitability is also at its highest since the middle of 2002 while the balance expecting to invest more than they did in the previous quarter is at its highest since the middle of 2001.

Turnover by country

In each of the countries in which the Barometer Index has risen, France, Germany and Italy, the balance expecting an increase in turnover has also risen. In France and Germany the improvements in optimism have been very significant. The balance in Italy was already at a very high level and so the increase there is less marked. In all three of these countries the balance is at its highest level since mid-2002.

In Spain and the UK, where the Barometer Index is down significantly, optimism about 3i-backed companies own turnover is down, but not by much. In the UK the balance remains higher than six months ago while in Spain it is down from the peak of +74% six months ago, but remains relatively robust.

The Barometer Index for the Nordic countries is relatively unchanged, while optimism about turnover prospects there has increased to a new high in the two years that the survey has been conducted there.

Chart 12: Balance of all European respondents (weighted by GDP) expecting an increase over current quarter in:

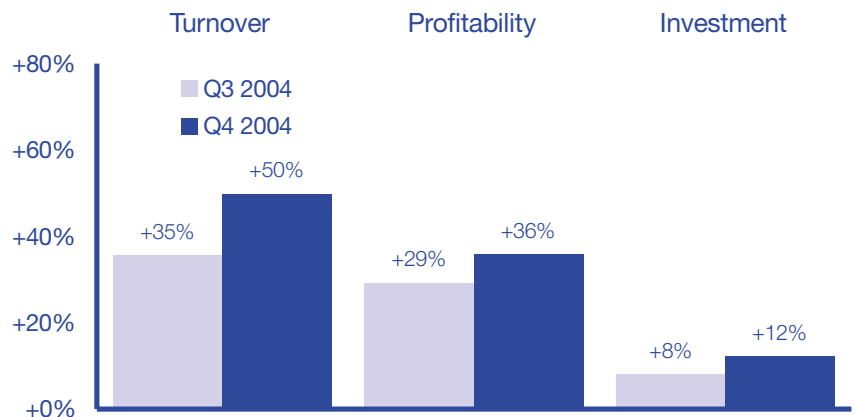


Chart 13: Balance of all European respondents (weighted by GDP) expecting an increase in turnover over current quarter, historical series

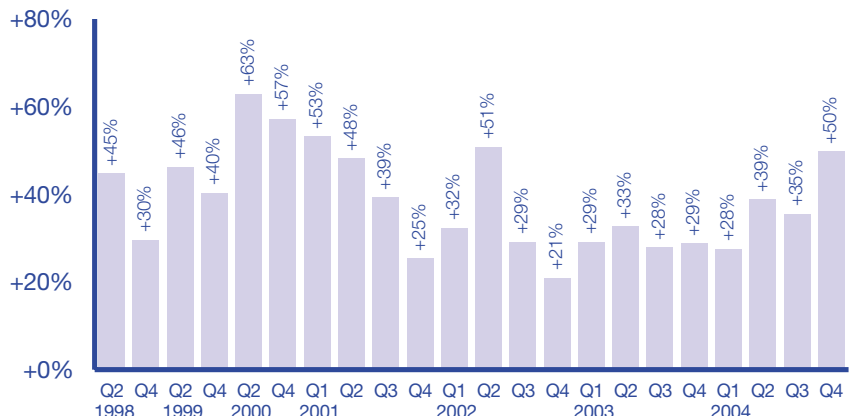
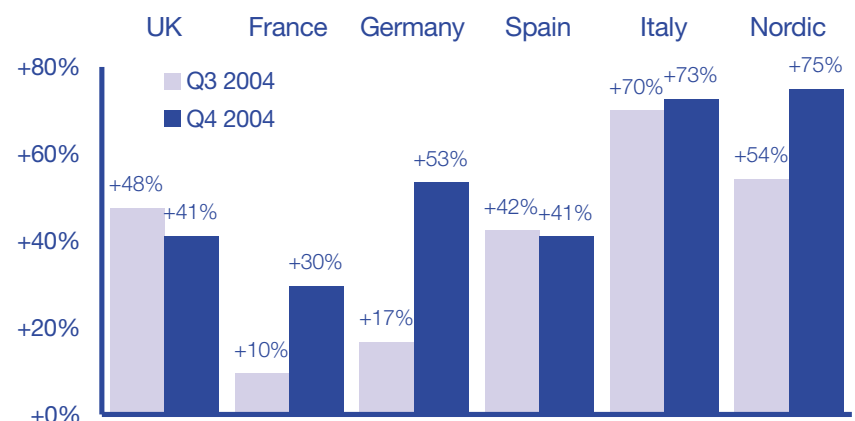


Chart 14: Balance of respondents expecting an increase in turnover over current quarter



UK Historical Perspective

While turnover optimism in most countries has improved since the previous survey, in the UK it has worsened. Chart 15 shows that although it has fallen from the peak of +48% in the previous survey, the UK turnover balance remains higher than at any time in the preceding three years.

There is increased regional disparity in UK turnover optimism. The balance for 3i-backed companies in the South has increased, from +55% to +58%. The balance has fallen from +30% to +23% in the Midlands, while in the North it has dropped more sharply, leaving them no more positive than their counterparts in the Midlands (down from +45% to +23%).

UK manufacturers are marginally less optimistic than they were, with the balance expecting an increase down from +31% to +30%. There has been a bigger fall in the balance for non-manufacturers (from +66% to +53%), though they remain more positive than manufacturers.

Profitability

The balance of 3i-backed companies expecting their profitability to be higher in the final quarter of 2004 than in the third has risen in three countries but fallen in the other three (Chart 16).

The balance in the Nordic countries is at its highest in the two years the survey has been running there, that for Germany at its highest since the survey started there, in mid-1998. The balance in Italy has also risen, to the same as at this time last year.

In France the profitability balance is down (even though the turnover balance is up). 30% expect an increase in profitability but the same proportion expect a fall.

While the Spanish turnover balance has fallen just a little, profitability expectations have taken more of a dive, down to the lowest in two years. The UK balance though has remained fairly solid.

Investment

Investment intentions have become more uniform across Europe (Chart 17). The balances in the previously most negative countries have risen, the first positive result in over three years in France and the highest balance in three and a half years in Germany.

In the UK and Italy, previously the most positive, the balances have fallen. The Nordic balance, at a two-year high, is now most positive.

Chart 15: Balance of UK respondents expecting an increase in turnover over current quarter, historical series

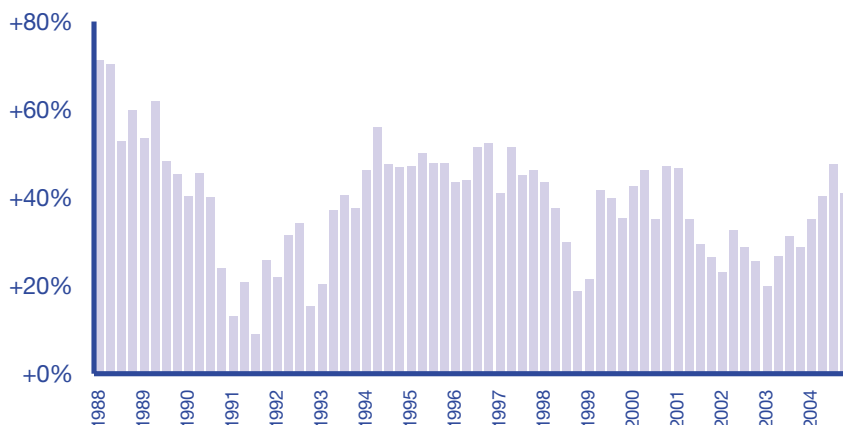


Chart 16: Balance of respondents expecting an increase in profitability over current quarter

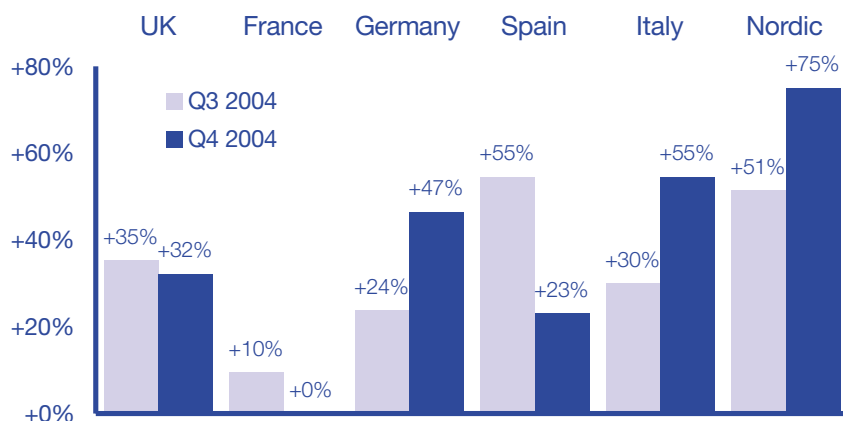
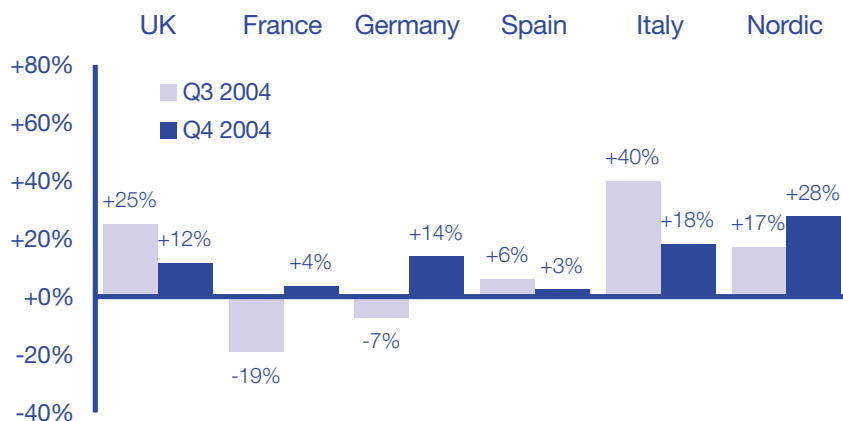


Chart 17: Balance of respondents expecting an increase in investment over current quarter



Employment

Chart 18 shows that as 2004 has progressed, 3i-backed companies have become more and more optimistic about employment prospects within their firms for the calendar year. At the beginning of the year, a balance of only +22% expected they would employ more people by the end of the year than they did at the beginning. In this last survey of the year, however, this balance has risen to +30%. Over half (54%) now think their employment levels at the end of 2004 will be higher than at the beginning. Less than one-quarter (24%) think that they will have had to cut employment by year-end. The balance is though lower than that between 1998 and 2001.

The total number of people employed by the 3i-backed companies taking part in this survey is expected to have risen by about 3% over the calendar year, to almost 90,000. Firms of all sizes expect to increase employment, the smallest expecting most growth.

Employment by country

The employment balances by country show no great change from the previous survey. The (relatively few) Italian 3i-backed companies taking part in the survey remain easily the most likely to expect to have increased employment over the year. The balances in France, Germany and Spain are up a little, that in the UK down a little. The Nordic balance has fallen throughout 2004, but remains higher than at this time last year.

UK Employment

In the UK, a balance of +30% of 3i-backed companies expect to employ more people by the end of 2004 than at the beginning. This is down from the +33% in the previous survey, but Chart 20 shows that the balance has been relatively stable throughout the year.

UK manufacturers are more positive than they were about employment, with a balance of +20% (up from +9%) now expecting to have recruited extra employees by the end of the year. Non-manufacturers remain more positive than manufacturers, but the divide is less, with the non-manufacturing balance down from +59% to +40%. The balance in the UK Midlands remains lowest, unchanged at +20%, but those in the North (+34%) are now more positive than their counterparts in the South (+30%).

Chart 18: Balance of all European respondents (weighted by GDP) expecting an increase in employment during current year

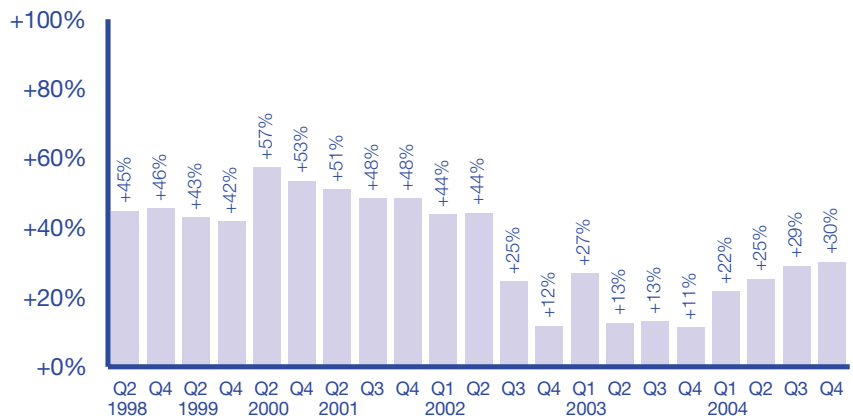


Chart 19: Balance of respondents expecting an increase in employment during current year

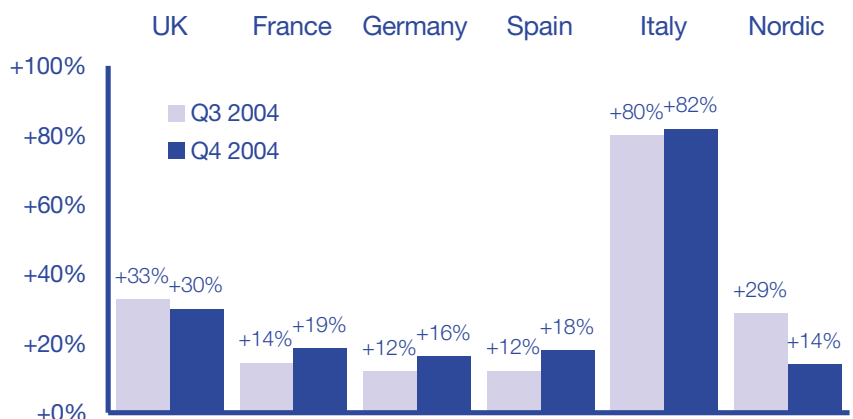
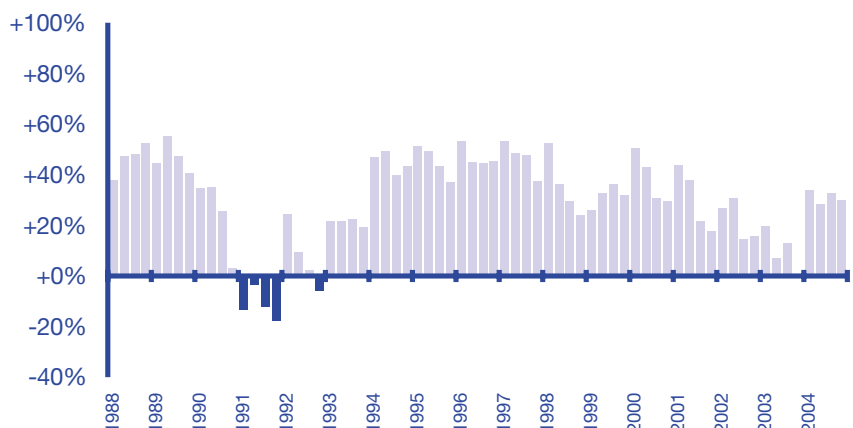


Chart 20: Balance of UK respondents expecting an increase in employment during current year, historical series



Country Summaries

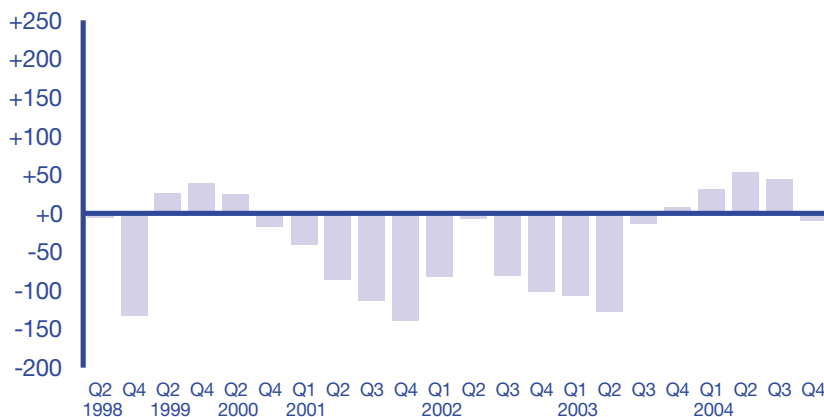
United Kingdom

The 3i UK Barometer Index has fallen from +44 to -10, the first negative result in over a year.

UK 3i-backed companies are also a little less optimistic than they were about their own immediate sales, profitability and investment prospects. The balance expecting an increase in turnover is down from +48% in the previous survey to +41% now, but this is higher than every survey in the preceding three years.

Those in the South of the UK are more optimistic than they were (+58%), while those in the North and Midlands are less so, the balance +23% in both regions.

UK Barometer Index

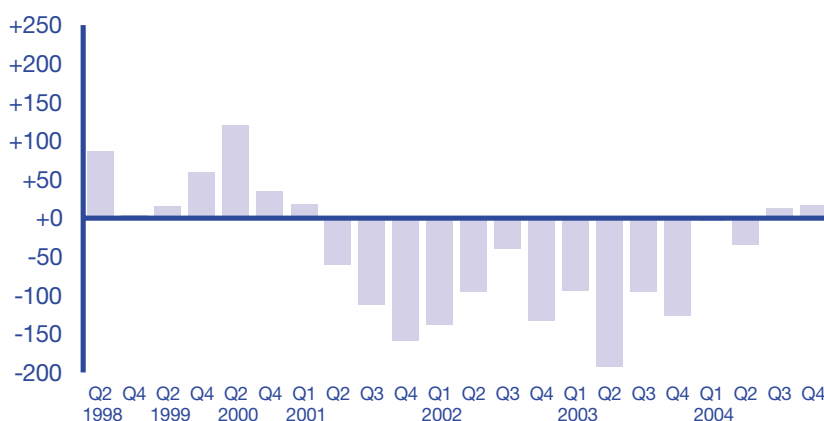


France

After being the only country in the previous survey to show a significant increase, the French 3i Barometer Index has continued to creep upwards, from +13 to +17, the highest since the beginning of 2001.

French 3i-backed companies are also much more optimistic than they were about their own immediate turnover prospects. A balance of +30% expect their turnover in the fourth quarter to be higher than in the third, the highest balance since mid-2002. Those expecting to invest more now outnumber those expecting to cut investment, for the first time in over three years. However, the profitability balance is zero, worse than the +10% in the previous survey.

French Barometer Index



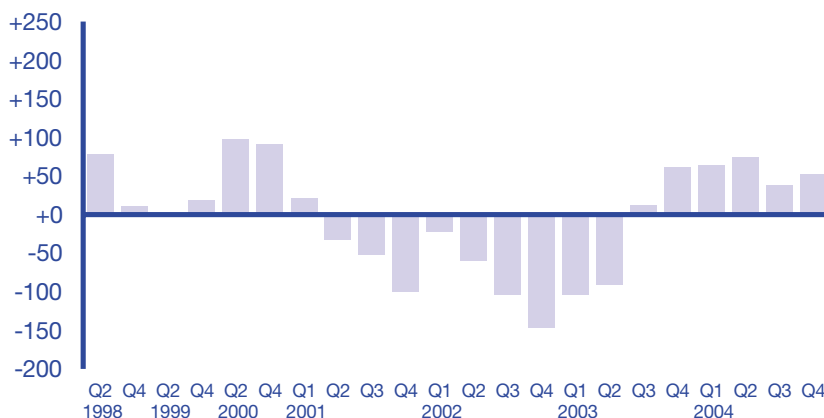
Germany

The 3i German Barometer Index has risen, from +38 to +52, but not recouped all of the losses of the previous survey.

Sales optimism among German 3i-backed companies has risen even more sharply, from +17% to +53%, the highest since mid-2002.

The balance of German 3i-backed companies expecting to increase profitability during the final quarter of 2004 (+47%) is at its highest since the survey started, in mid-1998.

German Barometer Index

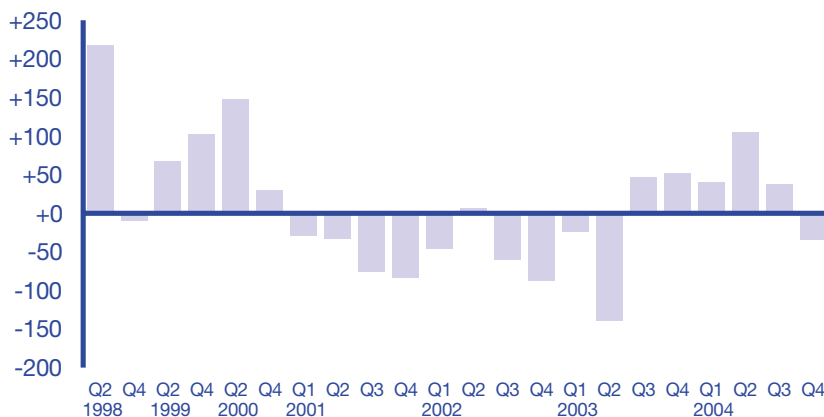


Spain

The 3i Barometer Index in Spain has fallen by a similar amount as in the previous survey, to -34. It has gone from being the most positive of the countries surveyed six months ago to the most negative now.

Although the Index has fallen significantly, the balance expecting an increase in their turnover during the final quarter (+41%) is down only slightly compared with the previous survey (+42%). The balance expecting their profitability to increase has fallen more sharply, to a two-year low, while investment intentions (+3%) are now the lowest of the countries surveyed.

Spanish Barometer Index



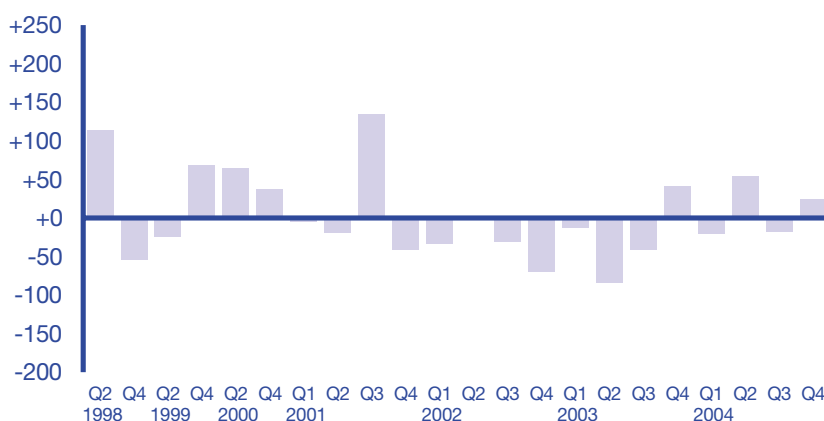
Italy

The 3i Italian Barometer Index has improved from -18 in the previous survey to +24, though not regained the level of six months ago.

Turnover expectations in Italy were already very high in the previous survey and have increased marginally again, with +73% now expecting an increase in sales. Profitability expectations are up, though investment intentions are down.

Italian 3i-backed companies remain far more optimistic about employment prospects for the year than their counterparts elsewhere. A balance of +82% expect to employ more people by the end of 2004 than at the beginning.

Italian Barometer Index

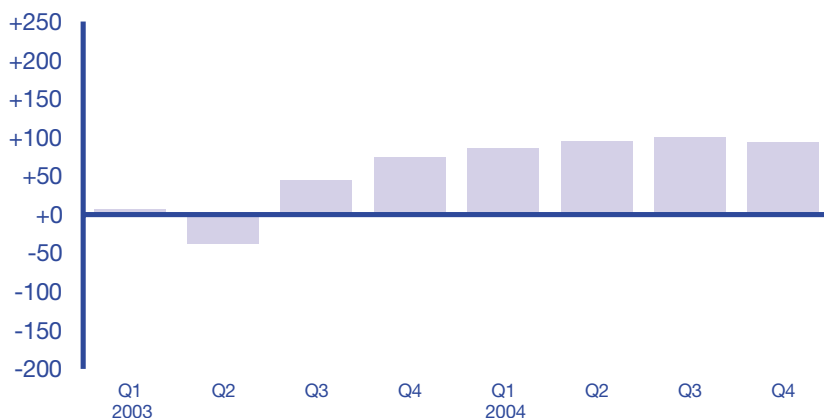


Nordic countries

The 3i Nordic Barometer Index has been relatively unchanged for the past year, slipping this time from +100 to +95, the same as six months ago. The Nordic Index remains much higher than that in the other countries surveyed.

The balances of Nordic 3i-backed companies expecting an increase in turnover, profitability (both +75%) and investment (+28%) are at new highs in the two years the survey has been conducted there. The employment balance has fallen (+14%), but is higher than a year ago.

Nordic Barometer Index



Survey Method

3i offices in the UK, France, Germany, Spain, Italy, Denmark, Finland and Sweden supplied lists of names of contacts, generally Managing Directors, in companies in which they had made investments.

Questionnaires were faxed and e-mailed in the relevant languages from the 13th September 2004. By 6th October, 380 completed questionnaires had been returned.

A summary statistic, the 'balance' is used to report the answers to most questions. For a question where the options are 'up', 'same' and 'down', the balance is the percentage reporting 'up', minus the percentage reporting 'down'.

Overall figures have been weighted by national GDP in each of the countries (responses from Denmark, Finland and Sweden are grouped together and treated as a 'Nordic' region).

3i-backed companies in Europe are evenly split between manufacturers and non-manufacturers. 3i-backed companies taking part are also split fairly evenly between those with under and those with over 100 employees. More 3i-backed companies in Germany and the Nordic countries than elsewhere have fewer than 100 employees or were established within the past ten years. More of those in Spain than elsewhere employ over 250 people.

The small sample sizes for some aspects of the analysis, particularly the country results for Italy, should be borne in mind when assessing the results.

More details of the characteristics of the sample, along with detailed answers to each question, can be found in the [Data Tables](#) document at:

<http://www.3i.com/barometer>

Barometer Index

	Weighted	UK	France	Germany	Spain	Italy	Nordic
Q2 98	+81	-6	+86	+79	+218	+114	
Q4 98	-34	-133	+3	+12	-10	-54	
Q2 99	+10	+26	+16	-3	+67	-24	
Q4 99	+47	+38	+59	+19	+102	+69	
Q2 00	+84	+25	+120	+98	+148	+65	
Q4 00	+40	-17	+35	+91	+30	+37	
Q1 01	-3	-41	+18	+21	-29	-4	
Q2 01	-48	-86	-60	-33	-34	-19	
Q3 01	-49	-113	-112	-53	-76	+134	
Q4 01	-109	-139	-158	-100	-83	-41	
Q1 02	-64	-82	-138	-23	-46	-33	
Q2 02	-39	-7	-96	-60	+6	+0	
Q3 02	-69	-81	-40	-105	-60	-31	
Q4 02	-114	-102	-133	-146	-88	-69	
Q1 03	-73	-107	-94	-105	-24	-12	+7
Q2 03	-117	-128	-192	-91	-139	-84	-37
Q3 03	-17	-14	-95	+12	+46	-41	+45
Q4 03	+11	+8	-126	+61	+52	+41	+74
Q1 04	+30	+32	-3	+64	+40	-20	+86
Q2 04	+49	+53	-35	+74	+105	+54	+95
Q3 04	+30	+44	+13	+38	+38	-18	+100
Q4 04	+23	-10	+17	+52	-34	+24	+95

Response rates

	All (unweighted)	UK	France	Germany	Spain	Italy	Nordic
Despatched	1519	1143	67	156	66	22	65
Returned	380	224	27	43	39	11	36
Response rate	25%	20%	40%	28%	59%	50%	55%