Buyouts

"The Buyout business has delivered another successful year, with a gross portfolio return of 29% and record levels of realisations. We face a highly competitive market but the strength of our deal flow and execution capabilities enable us to find exciting investment opportunities across Europe."

Jonathan Russell Managing Partner

29%

Gross portfolio return on opening portfolio value

£447m

Gross portfolio return

Realised profits of £208 million contributed strongly to the achievement of a gross portfolio return of £447 million. Portfolio health is good with unrealised value growth of £124 million.

We have remained highly selective with respect to new investment, which at £451 million demonstrates again 3i's market access across Europe.

Financial highlights (£m)
for the year to 31 March 2006

Gross portfolio return	447
Investment	451
Realisation proceeds	877
Realised profit	208
Unrealised value movement	124
Portfolio income	115

Gross portfolio return

The Buyout business generated a gross portfolio return of 29% for the year to 31 March 2006 (2005: 20%), which is at the top end of our target return range across the economic cycle. The business has now achieved or exceeded its target in each of the last three financial years through a combination of investment discipline and a favourable market environment.

Investment and realisations

Investment (excluding third party co-investment funds) for the 12 months to 31 March 2006 was £451 million (2005: £338 million). Investment levels were good, particularly in the first six months of the year, when the pipeline for new investment was exceptional. The lower level of investment in the second half reflects the continued competitive conditions in the European buyout market. Despite these competitive conditions, the business generated significant deal flow through its pan-European origination capability.

Realisations (excluding third party co-investment funds) for the same period were very strong with £877 million of realisation proceeds being generated (2005: £505 million). This reflected the underlying quality of the assets in the portfolio and the continued buoyant financial markets.

Portfolio health

The underlying health of our Buyout portfolio has been good since the new business model was introduced in 2001. The strong performance of the portfolio is underpinned by the low loss rate that we have seen on our investments in Eurofunds III and IV, which at the year end stood at 3% of investment cost.

Fund management

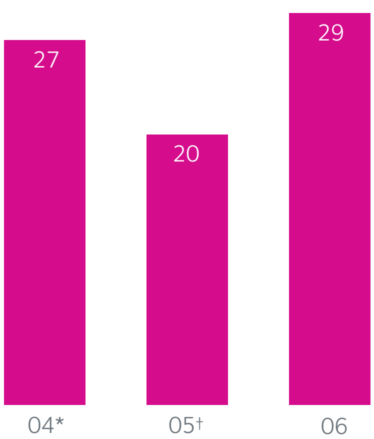
The third party co-investment funds that 3i raises are co-invested alongside our own capital when financing buyouts. In the year to 31 March 2006, 3i earned fee income of £24 million (2005: £27 million) from the management of private equity funds. In addition, 3i receives carried interest in respect of the performance of these funds. During the year, 3i recognised £79 million of carry receivable which relates primarily to Eurofund III, 3i's 1999 pan-European Buyout fund.

Our Buyout business is currently investing Eurofund IV, the €3.0 billion fund that was raised in 2003. The fund was 75% committed at 31 March 2006 and, consistent with industry fund raising practices, 3i intends to raise its Eurofund V mid-market buyout fund during the financial year ending 31 March 2007.

Long-term IRRs

The strong IRRs achieved on investments in the last five Buyout vintages reflect our commitment to high-quality investment. Favourable exit conditions and the health of our ongoing portfolio have seen recent vintages performing well ahead of our long-term targets for the business. The most notable successes from the last five vintages were the sales of Yellow Brick Road, Go-Fly, Westminster Healthcare and Betapharm.

Gross portfolio return by year (%)
to 31 March



*Restated to exclude unrealised currency movements.
†Restated for the adoption of IFRS.

Long-term IRRs (£m)
years to 31 March

Buyouts	Total investment	Return flow	Value remaining	IRR to date
2006	370	5	374	3%
2005	321	99	363	38%
2004	289	292	192	32%
2003	256	419	190	49%
2002	186	402	45	61%

Note: For an explanation of IRRs, please see pages 98 to 99.

NCP

New investment – UK – support services

In September 2005 3i and funds completed the £555 million buyout of NCP, the UK's leading parking services and traffic management company.

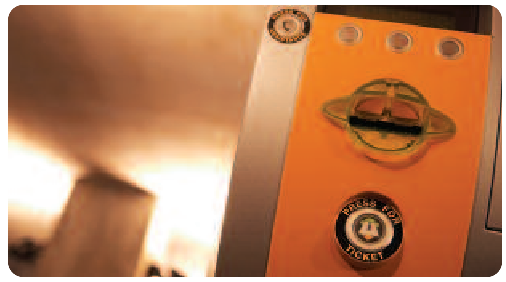
With over 800 sites and more than 5,000 employees, NCP provides services ranging from city centre car park management and airport parking through to providing outsourced traffic management services for local and central government.

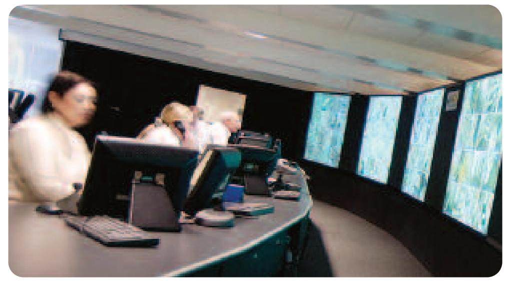
3i's knowledge of the business and relationship with the management team were critical in enabling it to win the auction process for this secondary buyout.

Long-term growth in car usage and increased local authority outsourcing are key drivers of NCP's growth. NCP's brand, synonymous with parking in the UK, reinforces the credibility of the business in winning contracts and aids diversification into new services.

3i has utilised its sector experience in support services and outsourcing – through investments in companies such as Keolis – to work closely with NCP. 3i also identified Mike Jeffries, former Chief Executive Officer and Chairman of WS Atkins, as Chairman for NCP.

NCP has a very high success rate in winning new contracts and, since the buyout, has been awarded all the major contracts it has tendered for. Revenue for the year ending December 2005 was £439 million.





Carema

New investment – Nordic – healthcare

3i and funds invested €70 million in the buyout of Carema Vård och Omsorg AB, a leading Nordic healthcare services company in July 2005. Carema provides primary, specialist, disabled and elderly care as well as staffing and, from its formation in 1996, grew to a €300 million business in 2005.

Ageing populations and rising patient expectations, combined with technological advances and pressures on government funding, are creating opportunities for private entrepreneurs to work in partnership with governments to deliver capacity, efficiency and high-quality care.

The Carema investment case was to back a highly responsible, growth-oriented team in a growing market.

3i's in-depth experience and track record in the healthcare sector was not only convincing to management but has been key in adding value post investment. 3i previously backed Westminster Health Care, one of the largest UK high-quality care home operators.

Carema has recently strengthened its position further with two acquisitions. Medihem, a high-quality nursing home operator in the Stockholm area, was acquired in December 2005.

In March 2006, with 3i's support, Carema acquired Finland's largest private healthcare provider, Mehiläinen. Together the two companies, which continue to operate under separate brands, will create one of the largest community healthcare entities in Europe with combined revenue of around €490 million.

SR Technics

Buy-and-build – Switzerland – aviation services

3i led the €425 million MBO of Zurich based SR Technics ("SRT") in late 2002. SRT was originally the maintenance and engineering division of Swissair, and was put up for sale when its parent company went into administration. Despite a challenging market environment, 3i recognised significant potential for SRT's management to capitalise on its leading industry reputation and extend the customer base.

3i's local presence in Zurich, successful track record in the aviation sector, and its ability to source a highly experienced chairman, Frank Turner, were all key in securing this investment.

Post completion, 3i and management have pursued a buy-and-build programme, transforming SRT into the world-leading independent provider of integrated technical and fleet management services for commercial aircraft. This was achieved through the acquisition of its major competitor, FLS Aerospace, in a €140 million transaction in June 2004.

SRT subsequently refinanced the business with a US$325 million asset based debt facility in June 2005 and signed up easyJet in a US$1 billion, 10 year contract. 3i's long-standing relationship and credibility with easyJet was a contributing factor.

The company has also built up a significant presence in the high growth areas of Asia and the Middle East. It has recently signed a joint venture with Shanghai Airport and won contracts with China Eastern, Vietnam Airlines and signed a MOU for a five year, US$750 million total fleet management contract with Gulf Air, the national carrier of Bahrain and Oman.

With over 5,000 employees, SRT reported total sales of €850 million and EBITDA of €95 million in 2005 and has enjoyed a normalised organic annual turnover growth of 15% since the buyout – more than double the sector growth rate.