Venture Capital

"Operating as a single global team, sharing knowledge and experience, and working actively with our colleagues in other parts of the Group continues to provide 3i's Venture Capital business with significant competitive advantage. This advantage has supported a growth in returns, in new investment and, I believe, has helped to further strengthen our reputation and recognition in the key venture markets in Europe and the US."

Jo Taylor Managing Partner

17%

Gross portfolio return on opening portfolio value

£128m

Gross portfolio return

An improved gross portfolio return of 17% was driven by increased realisation profits arising from healthy M&A and IPO markets for young technology businesses, and the attractiveness of our portfolio to those markets.

The growth in new investment from £143 million to £156 million was encouraging and further demonstration of the attractiveness of our approach to serial entrepreneurs, high-growth companies and their large corporate partners.

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

Gross portfolio return	128
Investment	156
Realisation proceeds	207
Realised profit	72
Unrealised value movement	51
Portfolio income	5

Gross portfolio return

The Venture Capital business generated a gross portfolio return of 17% to 31 March 2006 (2005: 11%). This improvement in performance was driven by a number of factors, most importantly organisational changes made to integrate the team into a truly international partnership across Europe and the US and enhanced portfolio management disciplines.

As returns have improved in our Venture business, so has the amount of investment in late-stage technology increased. When compared with early-stage technology, late-stage has lower return characteristics, but considerably less volatility. In the year to 31 March 2006, 44% of our Venture Capital investment was in late-stage and we anticipate that this percentage could rise to as much as 70% in the near term.

We have therefore reviewed the return objectives for our Venture Capital business in the light of this changing mix, and adjusted both the volatility and the overall return objectives as a consequence. The new gross portfolio return objective for the business remains higher than that for Buyouts and Growth Capital at 25%, and vintage year and cyclical volatilities have been set at 15% and 7% respectively.

Investment and realisations

Investment for the 12 months to 31 March 2006 was £156 million (2005: £143 million). It is the team's objective to invest between £175 million and £225 million per annum.

Realisation proceeds of £207 million were 33% higher than last year (2005: £156 million). The increase in realisations reflects an increased appetite of corporate buyers and, to a degree, the public markets for venture capital companies. Six Venture Capital portfolio companies achieved a flotation during the year, with the healthcare, drug discovery and software sectors being particularly active.

Portfolio health

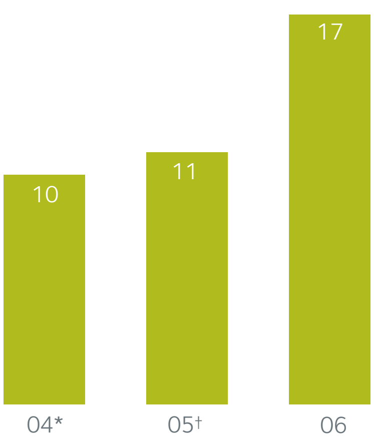
At 31 March 2006, 67% of our Venture investments were classified as healthy, against a three year rolling average of 65%. These levels are consistent with the higher risk return profile of venture capital investing.

Long-term IRRs

As previously noted, our Venture Capital business has increased its focus on late-stage investment and we have correspondingly adjusted our target for this business line's cash-to-cash IRRs to 25%.

The 2002 and 2003 vintages are behind target and we continue to manage this portfolio actively to improve returns. The 2004 vintage is the best performing recent vintage with strong value growth contributing to its success.

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

Venture Capital	Total investment	Return flow	Value remaining	IRR to date
2006	64	–	65	–
2005	63	–	63	–
2004	132	36	181	36%
2003	107	12	49	(19)%
2002	315	72	131	(12)%

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

TransMedics

Further investment – US – healthcare

3i led a US$30 million series C round and contributed US$14 million of funding for Massachusetts based TransMedics Inc in February 2006. Having invested in the series B round in 2003, 3i's position grew to a 24.6% equity stake as a result.

Founded in 1998, TransMedics is a medical devices company which has developed a unique system enabling a first in transplantation - a "living organ transplant".

By maintaining organs in a warm, functioning state outside of the body, TransMedics' Organ Care System is designed to optimise organ health and reduce the risk of organ failure. It also allows continuous clinical evaluation, and increases the amount of time an organ can survive outside the body over traditional cold preservation techniques.

3i has been an active investor in TransMedics, working in partnership with the management team and its scientific advisers and using its European relationships to support TransMedics' work with leading transplant centres in the UK and Germany.

TransMedics' technology improves organ availability for the growing population of patients with end-stage organ failure. Recently it enabled a new milestone to be reached in transplant medicine when the world's first beating heart transplant was successfully performed at the Bad Oeynhausen Clinic in Germany.

UbiNetics

Realisation – UK – electronics, semiconductor and advanced technologies

In July 2005 3i sold its remaining investment in UbiNetics to Cambridge Silicon Radio ("CSR"), the leading global provider of Bluetooth technology, which 3i had backed in 1999 and helped float on the London Stock Exchange in April 2004.

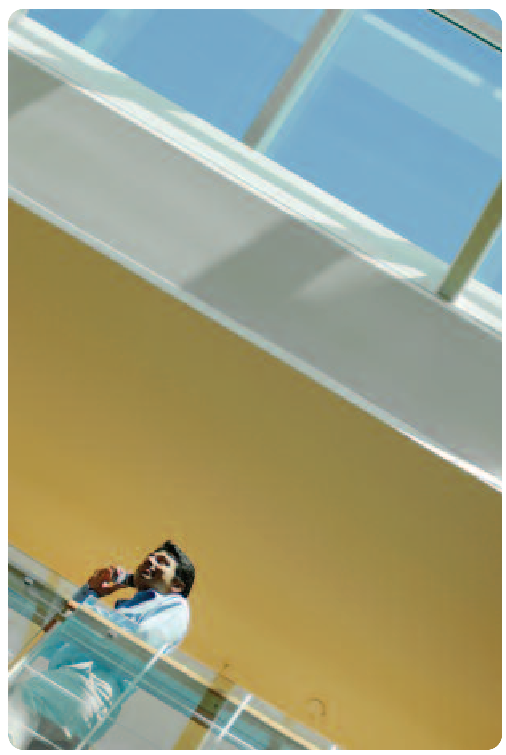
The deal at US$48 million, together with the sale in May 2005 of UbiNetics' test and measurement business to Aeroflex for US$84 million, delivered a total 2.4 times money multiple and an IRR of greater than 75% for 3i in less than 18 months.

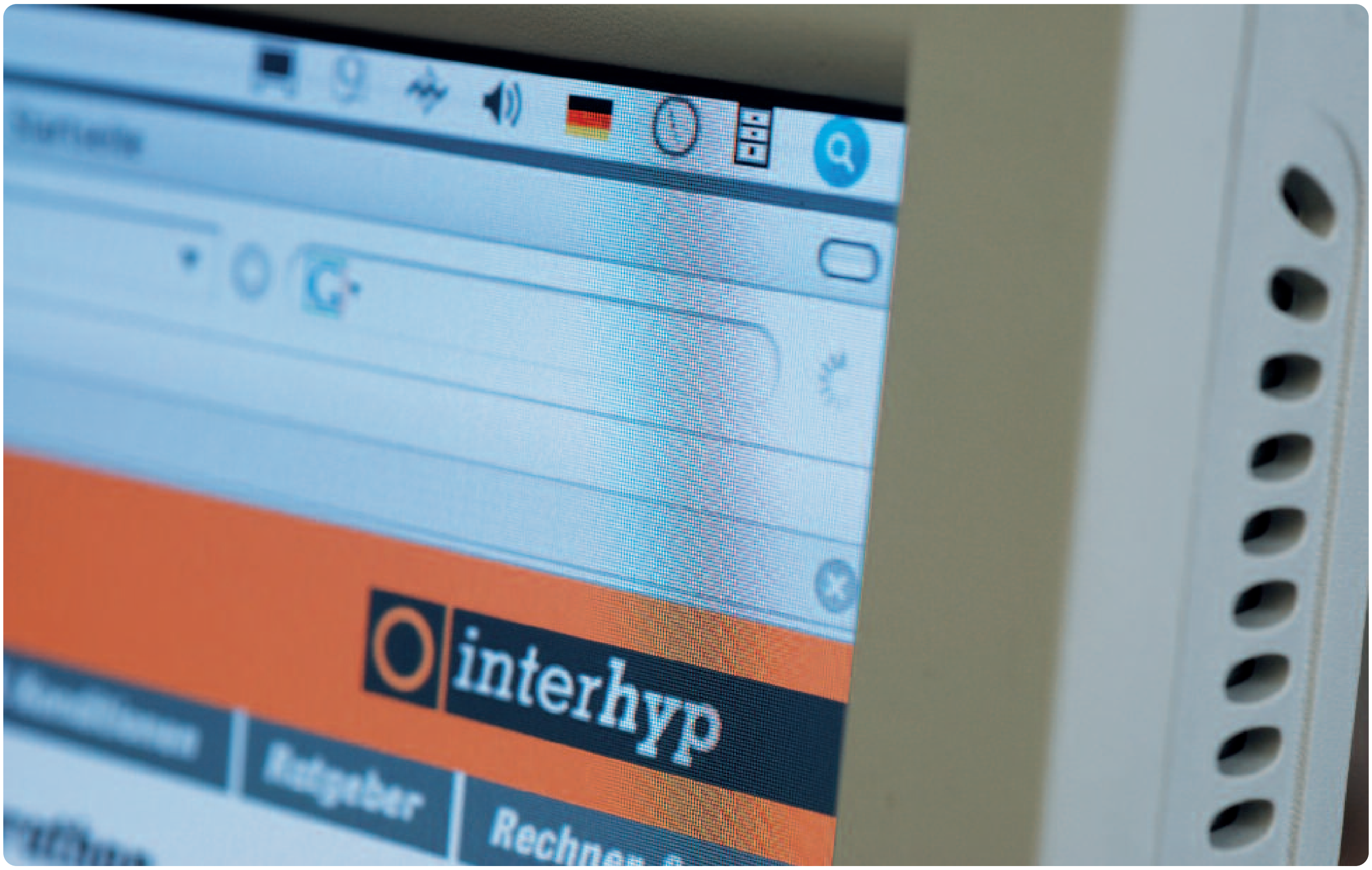
UbiNetics, a global supplier of the software and silicon IP for wireless terminals, which drives 3G mobile wireless technology, was founded by PA Consulting Group in 1999. The company grew from just 16 employees at its formation to over 400 employees and a £24 million turnover prior to the disposal.

3i's investment in UbiNetics was part of an ongoing collaboration with PA.

3i invested in the company in 2004, attracted by the huge potential of the 3G market. Laurence Garrett of 3i joined the board as a non-executive director together with John Scarisbrick, who 3i introduced. 3i subsequently helped UbiNetics to recruit a chief financial officer.

Working closely with the board on strategy, 3i was able to identify that the UbiNetics' handset business would be an excellent strategic fit for CSR, in which 3i remains a substantial investor. 3i made the initial introductions between the two companies, actively demonstrating both the value of 3i's network and its sector experience.





Interhyp

Realisation – Germany – financial services

Believing that Interhyp AG possessed the key criteria that 3i seeks in venture investing: a disruptive technology, excellent management and a significant market opportunity, 3i invested €7.2 million for a 17.7% stake in 2000.

When Interhyp successfully floated on the Frankfurt Stock Exchange in September 2005, 3i sold 40% of its equity in the IPO, realising a profit of €14.4 million. 3i made further realisations of €19 million to 31 March 2006 and had a residual stake valued at €38 million.

Founded in 1999, Interhyp has grown to become the leading online (and subsequently offline) mortgage broker in Germany, the largest mortgage market in Europe. It has redefined this highly fragmented industry by combining the benefits of the internet with independent consultancy, providing borrowers with rates which are on average 0.5% below those of traditional branch-based retail banks.

Interhyp's management team has grown revenues since inception in 2000 to €40 million with a 33% EBIT margin. In 2005 new residential mortgage volume exceeded €3 billion.