

# Annual results to 31 March 2008



15 May 2008





Welcome  
Baroness Hogg  
Chairman



- Chief Executive's review Philip Yea
- Financial review Julia Wilson
- Closing remarks Philip Yea



## Chief Executive's review

### Philip Yea



- Good performance in more challenging markets
- Realistic in outlook
  - debt markets
  - M&A markets
  - global economic conditions; portfolio performance
- Confident in strategy
  - further progress to report
  - setting new targets for the future

# Financial performance headlines



	2008	2007
Investment	£2,160m	£1,576m
Realisation proceeds	£1,742m	£2,438m
Realised profits on disposal	£523m	£830m
Gross portfolio return	23.9%	34.0%
Total return	£792m	£1,075m
Return on opening equity	18.6%	26.8%
Net asset value per ordinary share (diluted)	£10.77	£9.32
Final dividend per ordinary share	10.9p	10.3p



## 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
- Winning through our unparalleled resources

## Strategy

- To invest in high-return assets
- To grow our assets and those we manage on behalf of third parties
- To extend our international reach, directly and through investing in funds
- To use our balance sheet and resources to develop existing and new business lines
- To continue to build our strong culture of operating as one company across business lines, geographies and sectors

# A reshaped and diversified business



	2008	2004
• Number of portfolio companies	487	1,878
• Number of investments	47	85
• Average size of investment	£37m	£7m
• UK portfolio	38%	58%
• International coverage	10 EU offices 7 US/Asia	25 EU offices 4 US/Asia
• Total assets under management	£9,792m	£6,837m
• Number of employees	739	777



- Total return strong at 18.6%
- Growth in AUM for second successive year
  - QPEL listed, funded and 26% invested
  - 3i Infrastructure Limited performing very strongly
  - India Infrastructure Fund exceeds target size (\$1.2bn)
- Geographic expansion and increased deal size delivering
  - US Growth Capital established as active differentiated investor
  - Indian portfolio showing value growth
  - market-driven merger of late-stage Venture with Growth teams
- Selective approach to investing
  - fewer deals, but at higher average deal-size
  - earnings increases underpin uplift in portfolio value
- Fee income growing; net costs after fees flat year on year

- New investments – 47 in 2008 compared with 62 last year
- M&A markets hesitant
  - large LBO market remains closed
  - Asia still performing
  - strategics are active; mid-market open for right deals
- Debt markets open for mid-market deals in good sectors
  - at 2004/05 pricing and leverage levels
  - bank relationships critical
- Portfolio performing well today; not immune to economic conditions
  - review of 2007/08 investments; one provision
  - total provisions 4.3% of opening portfolio (2007: 1.7%)
  - 15% reduction in average EBITDA multiples



- Highly selective with new investments
- Active engagement with management teams
- Reconfirmed our through the cycle targets
- Confident in further delivery of our strategy



- Progress in all business lines
- Portfolio performing well
- 3i's market position plays to the current conditions

## Strategic progress

- New team in Asia
  - first buyout closed in April
- Central and Eastern Europe team
  - EDS closed May 2007
- Debt management opportunity

## Market positioning

- Well positioned as the leading European mid-market buyout firm
- Long-term banking relationships delivering

## Portfolio

- Active partnership model delivering
- Strengthened by Business Leaders Network



- Buyout from Anglo American
- New, more ambitious strategy
- Introduction of Chairman and CFO
- Support for international expansion
  - China, India, Spain, US
- Increased capital expenditure, training, R&D, product range
- Active board involvement

	At entry March 2005	On exit June 2007
EBITDA	€12.1m	€20.4m
EBITDA multiple	5.7	7.5
IRR		120%
Money multiple		4.1

“Accelerating our expansion in China is a key part of our strategy and 3i’s practical, hands-on support enabled us to move much more swiftly than we’d anticipated.”

Norbert Lamers, CEO, Wendt

## Strategic progress

- Move to higher average deal size - £37m (2007: £26m)
- Geographical extension
  - US Growth Capital – four investments in the year totalling \$489m
  - continued development in Asia

## Market positioning

- Well positioned as the leading international growth capital business
- Long-term local relationships delivering
- Flagship deals such as Foster + Partners, Quintiles, ACR and Little Sheep reinforce international and sector strength as well as high value add

## Portfolio

- Active partnership model delivering, leveraging Group resources

## Strategic progress

- 3i Infrastructure Limited (£700m listed fund)
- 3i India Infrastructure Fund (\$1.2bn fund announced on 16 April 2008)
- Capabilities in Europe, US and Asia now in place

## Market positioning

- 3i's track record in infrastructure, government relationships and FTSE 100 status all reinforce suitability as an infrastructure partner
- Track record on corporate responsibility and transparency provide competitive advantage
- Flagship deals such as AWG, Oiltanking and Adani Power reinforce sector strength and international capability

## Portfolio

- Active partnership model delivering
- Defensive qualities



## Strategic progress

- 3i Quoted Private Equity Limited launched on the London Stock Exchange in June 2007
- New investments made – Jelf and Phibro

## Market positioning

- Value add partner for smaller quoted companies
- Differentiated by 3i's resources and brand

## Portfolio

- Active partnership in place
- Strengthened by Business Leaders Network



## Opportunity

## Outlook/key differentiators

Buyouts

Mid-market  
Banking relationships

Growth Capital

Origination pipeline  
Suitability for LP funding

Infrastructure

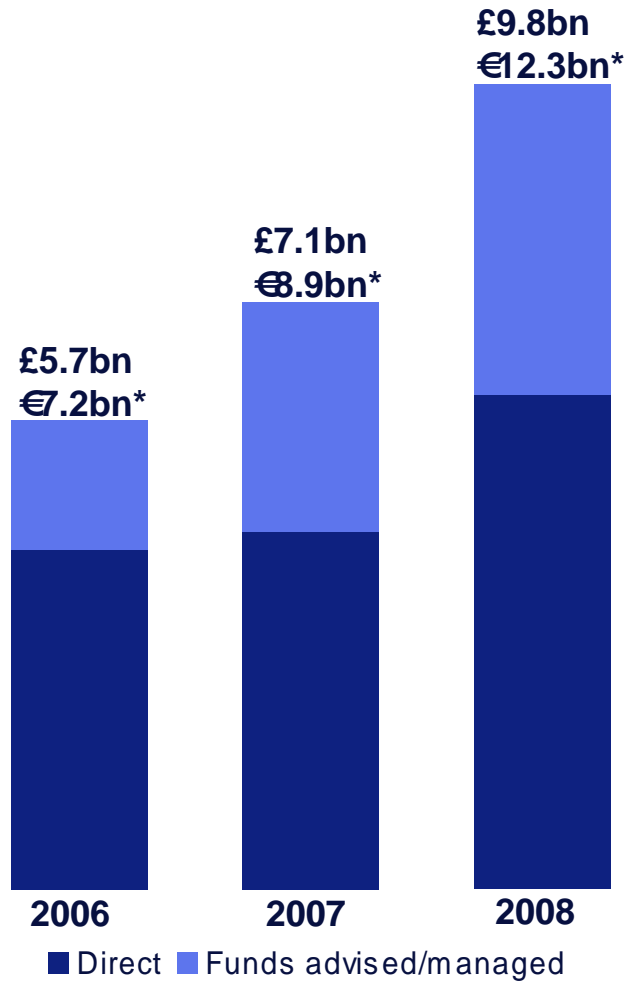
Performing; funded  
Non-correlated

QPE

Funded  
Pricing attractive

- Current portfolio of 180 investments managed by dedicated “Venture Portfolio Team”
- Managing for value with further investments as required

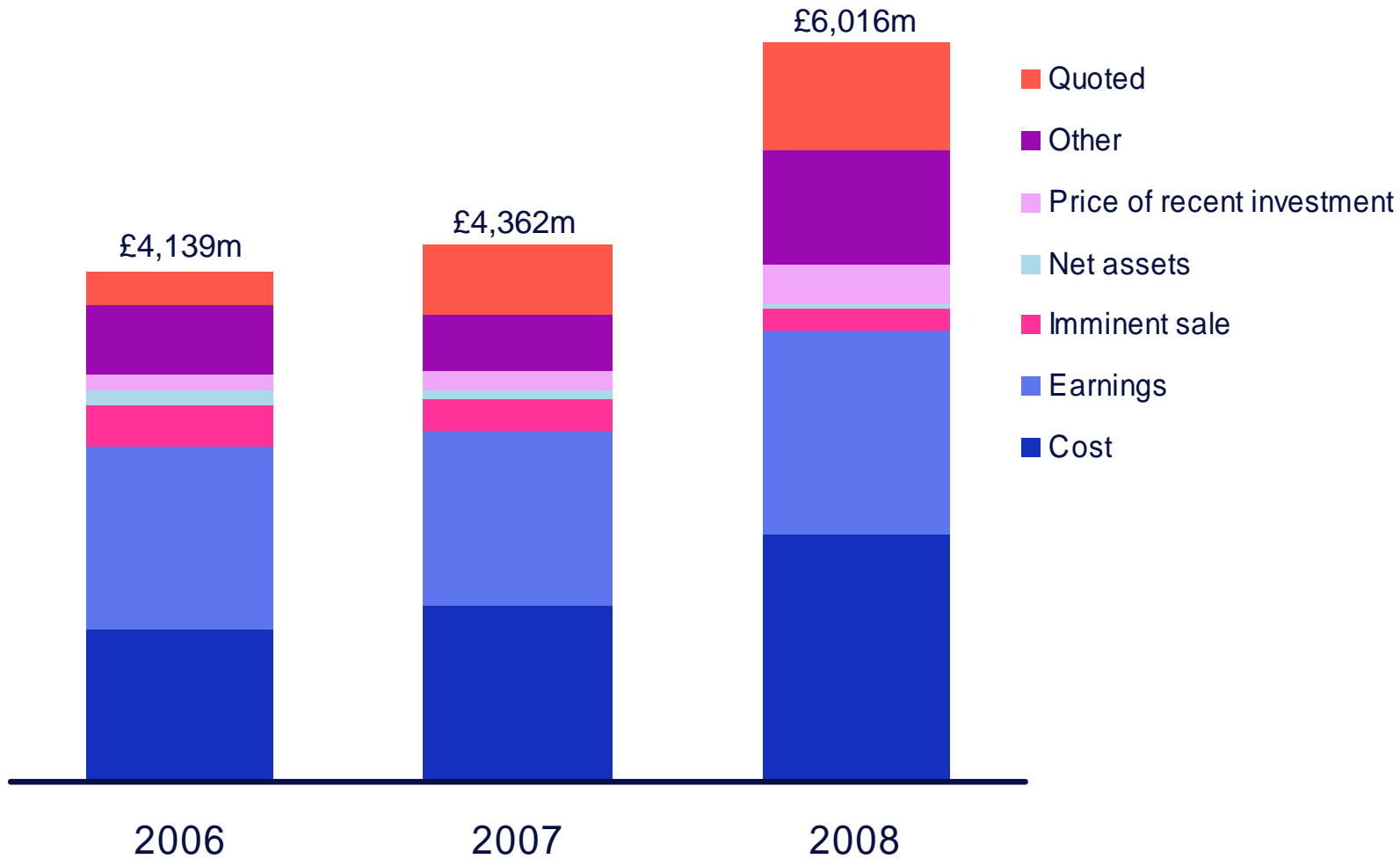
# Growth in assets under management



- 37% growth in assets under management for 2008
- Direct investment driven by average size
- Funds advised/managed driven by Infrastructure and QPE
- Target AUM of c.€20bn by 2010

\* Sterling/euro conversion at 31 March 2008 £1 = €1.26

# Valuation basis



- Existing €550m convertible bond matures August 2008
- New c.£425m convertible bond
  - 60% effective conversion premium
  - three year maturity



## Financial review

Julia Wilson  
Deputy Finance Director



# Financial performance headlines



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# Total return analysis



	2008 £m		2007 £m	
<b>Gross portfolio return</b>	<b>1,041</b>	<b>23.9%</b>	<b>1,406</b>	<b>34.0%</b>
Net carried interest	(92)		(61)	
Operating expenses less fees from external funds	(214)		(218)	
<b>Net portfolio return</b>	<b>735</b>	<b>16.9%</b>	<b>1,127</b>	<b>27.2%</b>
Net interest payable	(16)		(9)	
Movement in the fair value of derivatives	158		(29)	
Exchange movements	(44)		(31)	
Other	(5)		(2)	
<b>Profit after tax</b>	<b>828</b>		<b>1,056</b>	
Reserve movements	(36)		19	
<b>Total return on opening equity</b>	<b>792</b>	<b>18.6%</b>	<b>1,075</b>	<b>26.8%</b>

# Group – gross portfolio return



	2008	2007
	£m	£m
Realised profits	523	830
Unrealised profits	291	323
Portfolio income	227	253
<b>Gross portfolio return</b>	<b><u>1,041</u></b>	<b><u>1,406</u></b>
Realised uplift on opening book value	43%	52%

# Unrealised profits



	2008 £m	2007 £m
Earnings multiples	(162)	5
Earnings	307	142
First time uplift	154	142
Provisions	(188)	(71)
Up rounds	7	15
Uplifts to sale	83	139
Other movements on unquoted investments	26	(12)
Quoted portfolio	64	(37)
<b>Total</b>	<b>291</b>	<b>323</b>

# Earnings multiples

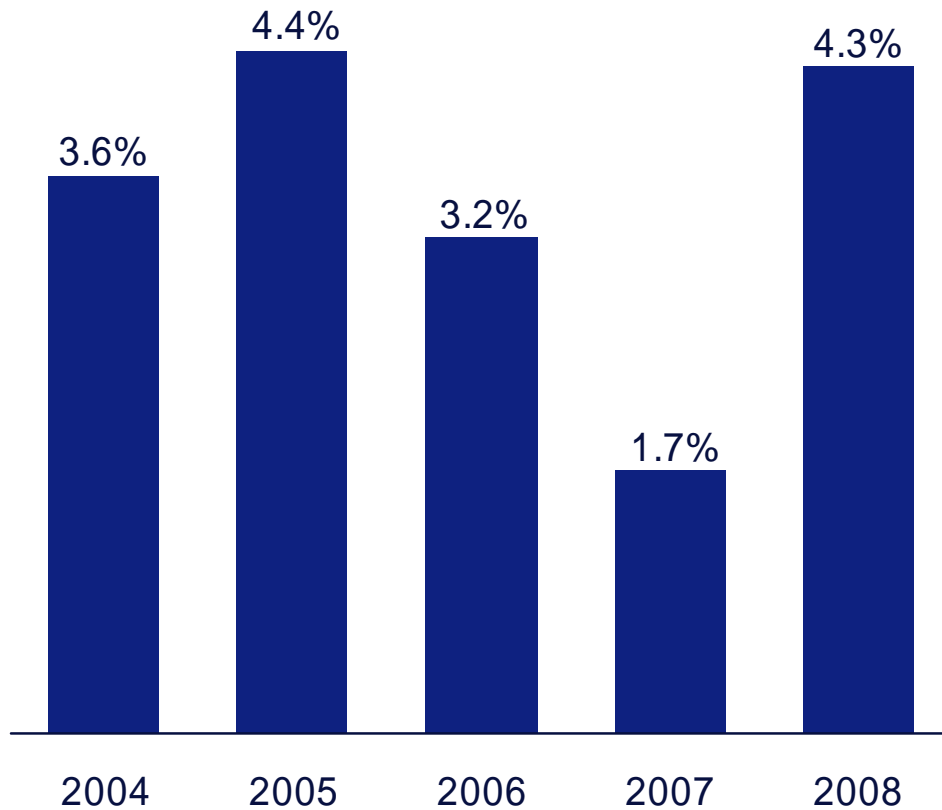


	March 2007	September 2007	March 2008
EBITDA multiples	6.8	7.2	5.8
Weighted average PE multiples*	11.6	12.9	10.8

\*Weighted average PE multiples exclude those valued on an EBITDA basis

- Increase in earnings for assets valued on an earnings basis at both start and end of year £307m, and first time uplifts £154m
- 21 of the top 50 assets are valued on an earnings (or equivalent) basis
  - 10 showing increase of more than 20%
- Portfolio performing well

## Provisions and impairments as a percentage of opening portfolio value



## Vintage IRR performance

Vintage year	Cost remaining	As at 31 March 2008	As at 31 March 2007
2008	100%	n/a	n/a
2007	88%	35%	9%
2006	45%	57%	47%
2005	29%	62%	54%
2004	22%	37%	30%

34% of direct portfolio value  
£4.6bn assets under management

Vintage year is the financial year ended 31 March

	2008	2007	2006	2005	2004
Gross portfolio return	57%	54%	29%	20%	27%

## Vintage IRR performance

Vintage year	Cost remaining	As at 31 March 2008	As at 31 March 2007
2008	100%	n/a	n/a
2007	97%	17%	(2)%
2006	65%	43%	35%
2005	50%	31%	35%
2004	10%	26%	25%

39% of direct portfolio value  
£2.5bn assets under management

Vintage year is the financial year ended 31 March

	2008	2007	2006	2005	2004
Gross portfolio return	21%	48%	26%	23%	25%



## Vintage IRR performance

Vintage year	Cost remaining	As at 31 March 2008	As at 31 March 2007
2008	100%	n/a	n/a
2007	95%	(11)%	(2)%
2006	95%	4%	5%
2005	94%	4%	(1)%
2004	53%	10%	14%

12% of direct portfolio value  
£756m assets under management

Vintage year is the financial year ended 31 March

	2008	2007	2006	2005	2004
Gross portfolio return	(2)%	(6)%	17%	11%	10%

	2008 £m	2007 £m
Contribution to Group results		
Realised profits	6	(15)
Unrealised profits	43	3
Portfolio income	18	27
Gross portfolio return	<u>67</u>	<u>15</u>
Fees receivable from external funds	18	-
Assets under management	1,213	854

	2008 £m	2007 £m
<b>Contribution to Group results</b>		
Unrealised profits	(42)	6
Portfolio income	-	-
Gross portfolio return	<u>(42)</u>	<u>6</u>
Fees receivable from external funds	1	-
Assets under management	411	20

# Net portfolio and total return

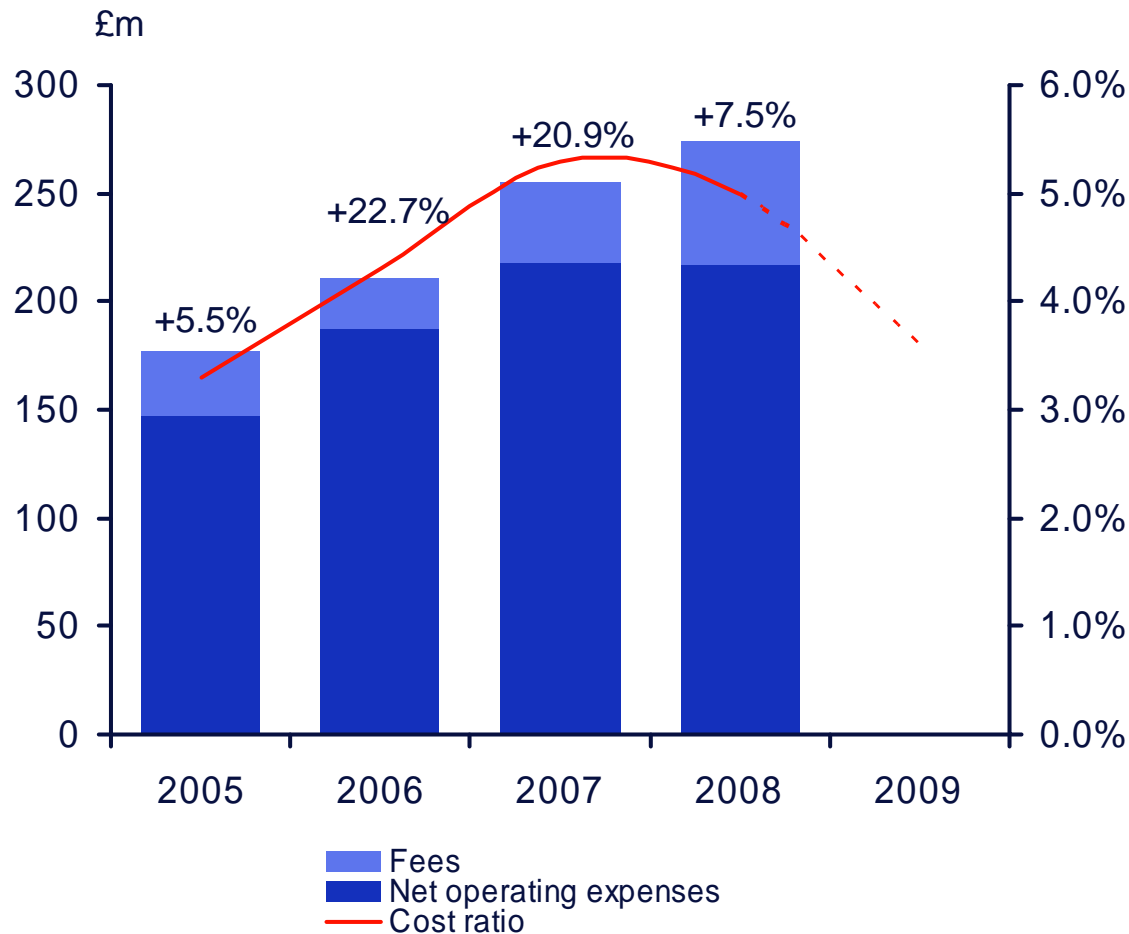


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	2008 £m	2007 £m
Carry receivable	60	81
Carry payable	<u>(152)</u>	<u>(142)</u>
Net carried interest payable	<u>(92)</u>	<u>(61)</u>

- Asymmetry due to carry being payable to investment staff in all business lines and carry receivable only being received where there are funds (eg Buyouts)
- Carry receivable lower due to change in mix of funds in GPR
- Payable increase is due to higher level of realisations from more recent vintages

# Operating expense five year trend



- Net costs flat
- Cost ratio 5%
- Expected to be below 4% 2008/09
- Fee income up 54%
- Opening portfolio up 38%
- Gross costs up 7.5%

# Total return analysis



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# Balance sheet



	March 2008 £m	Sept 2007 £m	March 2007 £m
Investment assets	6,016	5,130	4,362
Other net liabilities	(321)	(143)	(114)
	<u>5,695</u>	<u>4,987</u>	<u>4,248</u>
Net borrowings/(surplus)	1,638	1,143	(1)
Equity	<u>4,057</u>	<u>3,844</u>	<u>4,249</u>
	<u>5,695</u>	<u>4,987</u>	<u>4,248</u>
Gearing	40%	30%	0%



	2008 £m	2007 £m
Opening portfolio value	4,362	4,139
Investment	2,160	1,576
Realisation proceeds	(1,742)	(2,438)
Realised profits on disposal	523	830
Unrealised value growth	291	323
Exchange and other movements	422	(68)
Closing portfolio value	<u>6,016</u>	<u>4,362</u>

- Available liquid resources of £1,082m including undrawn committed facilities of £286m
- Announced today refinancing of convertible bond
- More than 50% of total borrowings mature beyond four years, and £600m is long-dated 2023 and 2032
- Credit rating
  - A+ S&P
  - A1 Moody's

- Good performance in 2008
- Capital efficiency improved
- Cost efficiency improved
- Strong liquidity

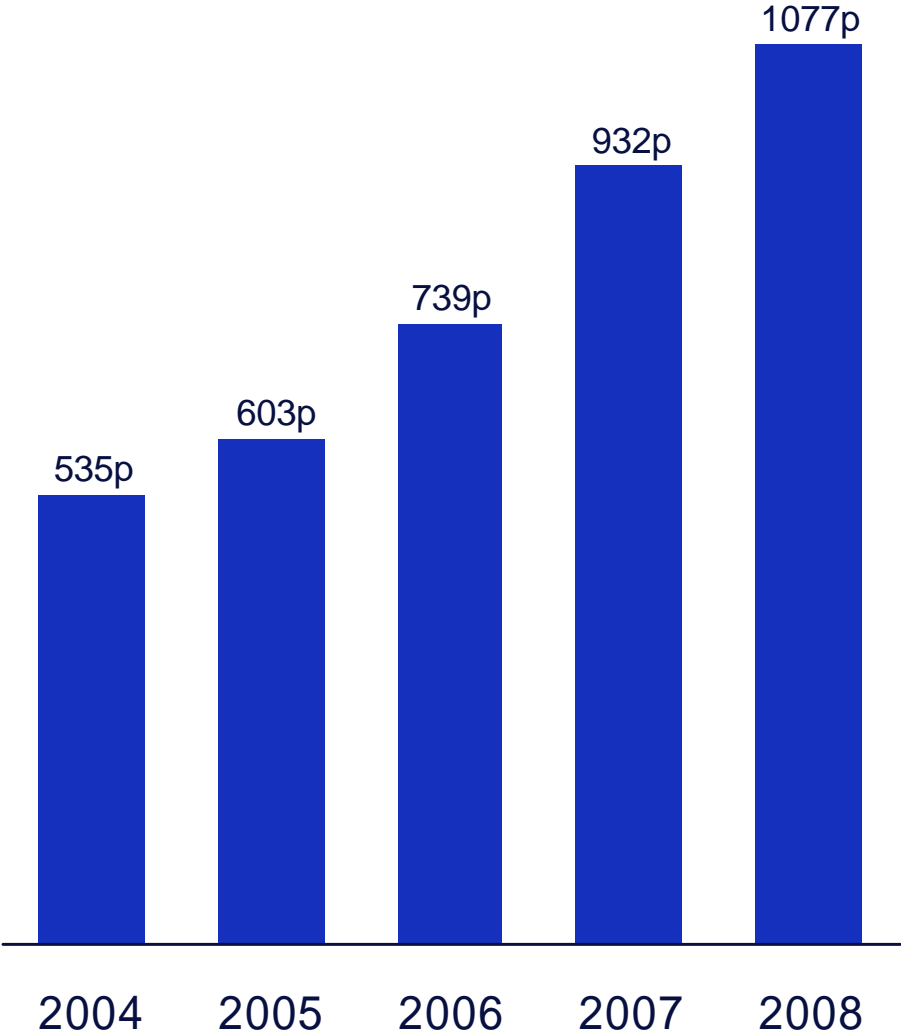


Closing remarks  
Philip Yea  
Chief Executive



- Last four years have delivered a reshaped business
- Growth in assets under management
  - diversified by geography and type
  - selective investment; fewer companies
- Group resources redirected to attractive areas
  - headcount flat over four years
  - net costs to opening portfolio on track to achieve long-term targets
- On track to achieving €20bn AUM by 2010 with potentially half third party

# Growth in net asset value



## Expectations for 2008

- Environment will stimulate opportunity
- Continuing a highly selective approach to new investments
- Realisations ongoing
- Investments and realisations broadly balanced

“We enter the new year confident in our strategy and realistic in outlook, intending to make further progress to build on the last few years.”

