Annual results to 31 March 2009

Baroness Hogg's script

Welcome – Baroness Hogg

Good morning everyone and welcome to our annual results' presentation. This follows our announcements to the Stock Exchange earlier today. We have made two announcements this morning, one in relation to a rights issue and the other being our annual results for the year to 31 March 2009.

The twelve months to 31 March 2009 was an extraordinary period and this environment has had a profound effect on our results for the year and our financial position.

As a Board we have taken a number of actions to strengthen 3i's position both in terms of organisation and its balance sheet.

As you know, in January the Board made a change in the executive leadership of the Company and appointed a successor to Philip Yea to manage the Company through the recession, delivering actions to strengthen the Company's financial position. Michael's experience as Finance Director, his successful stewardship of Growth Capital and launch of the infrastructure funds made him, in the Board's view, the outstanding choice. And he will shortly be reporting on the progress he has been making with these priorities.

The rights issue announcement this morning is clearly a crucial element. However, it builds on a number of actions already being taken by the company to reduce net debt. The Board sees the rights issue as complementary to, not a substitute for, a self-disciplined approach to cash generation. Our immediate objective is to reduce net debt to about £1bn in the next 12 to 15 months.

So before I steal any more of his thunder I would now like to handover to Michael.

MICHAEL QUEEN SCRIPT – MAY 2009

ANNUAL RESULTS TO 31 MARCH 2009

MICHAEL QUEEN – CHIEF EXECUTIVE

Good morning everyone and welcome to our presentation.

AGENDA

Our agenda for today's presentation is set out on this slide. As you would expect, the presentation will be somewhat different from our standard results presentation. For a start Julia Wilson the CFO is on maternity leave but Stephen Halliwell is here to take detailed financial questions.

You will all have seen already the key headline numbers which underscore just what a challenging year we have just experienced.

I will cover these at a fairly high level, although our usual disclosure and analysis is in the pack you have.

Today, however, 100 days after my appointment, it is also my first presentation to you as Chief Executive and I want to explain my assessment of 3i's strengths, my priorities for the company as well as setting out my thoughts on our future direction.

This will lead to an explanation of the rationale for the rights issue and the impact this will have on the Group.

BACKGROUND

I believe that 3i has a strategically advantaged core business and although I will take some time explaining this to you in a moment, our core business concentrates on investing in high quality Growth Capital, Infrastructure and Buyouts international. We have a high-quality underlying portfolio which is diversified by sector, geography and business line.

We have taken a conservative approach to valuing our portfolio to take the current economic environment fully into account. However, it is clear that our level of net debt was too high.

So let me turn to priorities. The first is to reduce net debt to £1 billion in the next 12-15 months. Today's announcement accelerates the achievement of that objective, although there is more to do. I believe that this business should be managed with a conservative capital structure and will therefore probably continue to reduce net debt even further than the £1 billion reduction target that I already have set.

We absolutely need to be in a strong position to protect the value of the portfolio at this point in the cycle, where M&A activity is at very depressed levels so that we realise these assets at the right time.

We also need to prepare for the inevitable upturn in markets, not just financially, but also by strengthening our sector capabilities and analysis so that we continue to make the best and most informed investment decisions that we can. This will require further investment in our people to ensure that they have all the necessary tools to make informed decisions and, finally, our network, which is what ultimately holds our business model together and is a key source of our competitive advantage.

FUNDRAISING

The rights issue announced today we will raise £732 million on a 9 for 7 basis at 135p per share.

There is no question that in recent month's perceptions of the group have been adversely affected by our debt burden. The rights issue will allow us to reach our £1bn net debt target much quicker and by so doing remove the debt concern from the table. This will enable investors to once again focus on the core strengths of the 3i business model.

By restoring 3i's traditional position of balance sheet strength, the rights issue will also allow 3i to be more effective in its core business private equity and in Infrastructure investment.

Additional capital will strengthen our position in the debt capital markets.

It will also provide additional resources to invest when appropriate opportunities arise. The equity fundraising also gives us greater flexibility to manage our existing portfolio so as to maximise value. At the moment, there is a risk that we are deemed to be a forced seller of assets given the perceived weakness in the Group's financial position. This is not the reality, but the perception itself is enough to compromise our position where we are selling an asset, as potential buyers will seek to squeeze the purchase price.

Conversely, where we are competing to invest or acquire a company, a key consideration for the vendor is that the potential investor is able to "deliver the deal", by which I mean that there is no uncertainty with respect to the acquirer's ability to finance the transaction. This has always been a key competitive strength of 3i and today's fundraising is an important next step in re-establishing this position of financial strength in the market.

This rights issue is an important step and there is more to be done but by strengthening our balance sheet today through this capital raising, we will be better positioned to maximise future returns for investors.

The Board has decided, in the light of the Rights Issue and the Group's financial results for the period, not to declare a final dividend for the year ending 31 March 2009. This effectively resets the dividend to 6.3p for the full year. However, it is the Board's intention to pay a dividend of not less than £24 million for the financial year ending 31 March 2010.

The Board remains committed to the principle of paying an increasing dividend and intends (subject to shareholder approval as necessary) to resume dividend payments consistent with this principle in January 2010.

In addition we expect 3i employees to invest as part of the fundraising.

Let me now turn to the Group's business.

A FOCUSED PRIVATE EQUITY BUSINESS

You will all be familiar with the substance of this slide, but allow me to recap. 3i has three core business lines: Buyouts; Growth Capital; and Infrastructure.

Our mid-market Buyouts business invests across Europe and Asia, investing in companies with an enterprise value of up to €1 billion. Together, with external funds, total assets managed amount to £3.8 billion.

The Growth Capital business invests principally from 3i's balance sheet although, at the right time, it is our intention to raise external funds in the business line to invest alongside 3i's own capital. The Growth team invests in established profitable companies across Europe, Asia and the US and currently has an investment portfolio of £1.6 billion.

Turning to Infrastructure, this business line invests in infrastructure projects in the transport, utilities and social infrastructure sectors. We invest from our balance sheet primarily in infrastructure funds that we manage, such as 3i Infrastructure plc, the London-listed FTSE 250 and 3i India Infrastructure Fund. The team is currently managing and advising funds of £1.6 billion.

INTERNATIONALLY CONNECTED

One of 3i's key competitive advantages is our international network, both at the investment and the portfolio management level.

Our network, the relationships that we have in each of our markets, and how we manage those relationships, gives us real competitive advantage when originating new deals. We can select the best investment opportunities we see across our network, which puts us in a strong position when deciding which deals we will pursue and how we will allocate investment resource and experience.

It is also a cornerstone of our “active partnership” model approach to our portfolio.

Active partnership is all about working with the management teams that we back to help them achieve their growth objectives. Whether we are introducing a US investment to relationships in Europe, accessing advisory relationships in Asia, helping management teams identify strategic acquisitions, etc, it is our international network and market positioning in those markets, whether that is mid-market in European Buyouts, or Growth Capital in China, that gives us real competitive advantage.

DIVERSIFIED PORTFOLIO

As I said in my introduction, we have a highly diversified portfolio by business line, geography and sector and I believe that 3i has one of the best quality mid-market portfolios in the industry.

As you can see, Growth Capital and Buyouts account for almost 75% of the total portfolio, with Infrastructure accounting for approximately 10% of the portfolio. The remainder of the portfolio is primarily in the non-core Venture and SMI businesses, which we are in the process of realising the underlying assets.

Despite the progress that we have made in building experienced investment teams in Asia and the US, our business continues to be predominantly European, with around 80% of our portfolio in this region. We will continue to build our portfolio in other regions and, given the underlying growth, I am particularly confident about the outlook over time in the US and Asia.

STRONG CASH FLOW GENERATION

Our business has demonstrated a capacity to generate cash through economic cycles and during periods of market volatility. As you can see from the slide, we generated some £1.3 billion of cash inflows during the 12 months to 31 March, which is a testament to our ability to continue to realise assets and manage our cash flows effectively, even when the market for exits is very challenging.

One element of this slide that I would like to highlight are the yellow bars, particularly for the period between 2006 and 2008. These are largely movements resulting from the returns of some £2.5 billion of capital to shareholders.

In the early part of this chart up to 2004 you can see with the pink and green lines the conservative approach to balance sheet management that was adopted. However, during this period our investment business model was weaker than now.

Today we have a much stronger investment and operational model which we propose to combine with the more conservative balance sheet approach of those earlier years. We believe this is a wining combination.

SUSTAINABLE COMPETITIVE ADVANTAGE

Having outlined the key elements of the 3i business model, I would now like to explain why I feel this adds up to a very advantaged position - starting with the brand.

If there is one thing that I can be absolutely certain of, it is that the serious downturn in markets will dramatically change the competitive landscape of the private equity industry. There will be a flight to quality, with LPs seeking to invest with private equity firms with long and established track records and a proven ability to manage their businesses through economic cycles.

3i will be a winner from this process, being one of the longest established, most reputable and strongest brands in the private equity industry. This gives us a strong position across many markets, and also strengthens our position with our Limited Partner investors.

Underpinning the 3i brand is a proven mid-market investment model, which continues to be extremely well placed. Our international investment teams are very experienced and my senior investment colleagues, Jonathan Russell who heads our buyout business, Guy Zarzavatjian who heads Growth Capital and Paul Waller head of funds have all been with 3i for over 20 years. I have added to this experience with the appointment of Ian Nolan as CIO and Cressida Hogg as Managing Partner Infrastructure.

I firmly believe that our Growth Capital business is market leading. There are very few, if any, other private equity funds out there, that have the depth of experience of 3i's Growth Capital business.

This business will be very successful when markets turn. Given that it is a less competitive segment of the market, it is not reliant on a recovery in the debt markets and, as I said earlier, will be able to meet the financing need of cash starved companies requiring working capital to fund their businesses through the next phase of the cycle.

Our active partnership approach will underpin the success of not only our Growth Capital business, but also our Buyouts and Infrastructure businesses.

Our investment grade rating is also an asset although we will not be as active in debt capital markets as gearing falls.

Strong relationships with our LP investors, whether in our Buyouts or Infrastructure businesses, will also be core to continuing to build our external funds under management and achieve our objective of having up to 75% of our funds under management off balance sheet.

In summary – the 3i business has a position of strong competitive advantage which will not only tide it through the difficult markets we face, but ensure it emerges a winner going forward.

PRIORITIES

As I said earlier these are our priorities let me now move to actions we have taken.

MANAGEMENT ACTIONS

The first priority was to reduce the debt and considerable progress has been made.

We have continued to generate cash through the disposal of core portfolio and non-core assets. We generated £365 million of realisations during the first three months of this calendar year, with realisation levels running well in advance of investment levels.

The acquisition of 3i Quoted Private Equity results in a net benefit of some £110 million of cash from the deal and it also has the benefit of simplifying our business model and some cost benefit.

The sale of 9.5% of the issued share capital of 3i Infrastructure plc generated cash proceeds of a further £61 million.

We have also taken action to reduce operating expenses by around 15%. This has been achieved not only through the reduction in headcount but also tight management of costs, although the full benefit of these actions will not flow through until current year the cost was taken last year.

And, finally, we have raised net cash of £732 million through today's rights issue, which gives us pro forma net debt of £1.1

billion [we say £1.3bn lower down when discussing NAV] and gearing of 42%.

I believe that these initiatives clearly demonstrate that we are on the right track and that we are delivering against a clear set of priorities.

The other key area in which progress has been made concerns the management of the group where I have been keen to re-emphasise 3i's core investment focus and to further improve our investment processes.

A key element in this is the appointment of Ian Nolan as chief investment officer. Ian, who has 22 years investment experience, will join the Management Committee and take responsibility for ensuring our investment processes and decisions are of the highest standard.

Elsewhere I have taken steps to reduce the size of the Management Committee in order to ensure we remain sharply focused on investment.

CONSERVATIVE VALUATION BASIS

Let me turn now to valuation.

We have been rigorous in reflecting market movements in our valuations and have moved all of the assets from these recent vintages from cost to another basis of valuations.

As you can see from the slide, the light green box at the bottom of the column on the right – “market adjustments from cost” – is intended to reflect the full impact of market movements on the recent vintages that were held at cost. We firmly believe that this ‘adjustment’ to the valuations of this portfolio will position the portfolio well to generate strong future returns, particularly given our confidence in the quality of the portfolio.

We have taken a conservative approach to valuing our portfolio to take the current economic environment fully into account. At this stage of the cycle, our earnings based valuations see sharp falls as we use historic market multiples and are often using forecast earnings to reflect any downturn in performance.

Unsurprisingly, both weighted average PEs and weighted average EBITDA multiples have declined during the period, which is clearly reflected in the valuations.

Finally, it is important to remember that we apply an average liquidity discount of between 15% and 25%, which further reinforces the conservative valuation of the portfolio.

KEY FINANCIALS

Let me now turn to the key financials. As I said in my introductory comments, I will cover these at a fairly high level, although our usual disclosure and analysis is in the pack you have.

Turning to investments and realisations. This year has seen significantly lower levels of investment activity than 2008, with investment of £968 million compared with £2,160 million last year. This reflects the uncertain outlook for new investment and, as I said earlier, a reluctance to take on significant new investment risk at this stage in the cycle.

Realisations, however, were more resilient and £1,307 million of realisation proceeds were generated from the portfolio during the year, which compares with £1,742 million last year. This resulted in a net cash inflow from investment activities of some £350 million.

A negative total return of £(2,150) million, which compares with a positive return of £792m last year, clearly reflects the depth of the challenges we have faced in terms of equity valuations in particular during the past 12 months.

I will turn to this in greater detail in a moment – but in terms of outcome - the closing NAV was 496p, which compares with an opening NAV of 1077p.

NAV PROGRESSION

As you can see, we have seen the NAV contract from 1077p to 496p during the year, largely due to PEs and EBITDA multiples and performance in the portfolio.

Market multiples (including quoted movements) and earnings and performance account for the majority of the reduction in the NAV during the period.

PRO FORMA BALANCE SHEET

Turning to the balance sheet, you can see that following the net cash of £575 million from the rights issue, pro forma net debt has come down to roughly £1.3 billion [we say £1.2bn further up], with the Group's equity being strengthened proportionately, increasing from £1.8 billion at 31 March to £2.4 billion on a pro forma basis.

Also, note, that these numbers include the £110 million cash inflow from the acquisition of 3i QPE.

CAPITAL STRUCTURE AND LIQUIDITY

Turning to our capital structure and liquidity. It is our intention to target a conservative capital structure. As I have said, we want to reduce net debt to £1 billion and today's announcement accelerates the achievement of that objective. This will provide a solid investment grade so that we can access the debt capital markets if we choose to do so and, critically, the lower net debt will reduce financial risk and the volatility of the Group's returns.

GROSS DEBT REPAYMENT PROFILE

This slide shows our debt as payment profits we have no material maturities within the next 12 months, no covenants and these facilities are attractively priced.

BENEFITS OF FUNDRAISING

This slide illustrates what I believe is the key rationale for the announcement of today's rights issue.

From a risk perspective, the strengthened equity base puts the Group on a firmer financial basis, which will also stabilise the Group’s credit rating.

As I have said, reducing net debt will reduce the Group’s financial risk and the volatility of its returns.

Reducing the net debt will also positively impact our returns. We will have greater flexibility in managing our existing portfolio, ensuring that we can maximise the returns from the portfolio as markets recover. We will also be able to take advantage of new investment opportunities at attractive valuations.

Let me remind you again, that one of the principal reasons for doing the rights issue today is that it fundamentally strengthens our position in our markets, not only financially, but when negotiating divestments or when making new investments. If we can enter those negotiations from a position of clear financial strength, we will have a much greater chance to maximise returns from the portfolio or secure new investments at attractive prices for future returns.

NEW INVESTMENT OPPORTUNITIES

And it is this position of financial strength that will allow each of our business lines to capture new investment opportunities when they arise.

The continued constraint in the global credit markets, combined with muted public equity issuance, create very favourable conditions for the Growth Capital business, with management teams having a preference for equity over debt, particularly where working capital is constrained.

Virtually in any market at the moment, governments are using fiscal stimuli to boost their economic prospects and this will lead to a strong demand for private infrastructure investors, particularly as national deficits soar. Also, the requirement for infrastructure investment in emerging and developed markets remains strong and has not been diminished by recent events.

The Buyouts business expects to see some very attractively priced vintages in the coming two to three years, which will also be supported by a recovery in equity valuations. We expect that much of the activity will be driven by management churn as we enter a new phase in the cycle, which will lead to corporate restructurings and new priorities as markets recover.

SUMMARY

In summary, these have been exceptionally challenging markets, particularly since the autumn of last year, with a systemic downturn in the global credit markets, a significant decline in equity market valuations, resulting in a period of acute uncertainty in which the global economy has fallen into deep recession.

Against this backdrop we have set clear priorities for the both the near and medium-term to ensure that our business comes through this period in a position of strength.

As I have detailed, we have taken several actions to bring greater focus to our business, strengthen our balance sheet, and position our business for the future.

Finally and most importantly: I am very confident that 3i will be a winner from the shake-out that the industry is experiencing. We have the reputation – captured in the 3i brand - the network, the people and the experience.

Additionally, the successful fund-raising announced today means our traditional financial leadership position has been restored, which will allow us to capitalise on our position of competitive advantage

Markets will certainly remain tough for some time yet, but I am both confident and determined that 3i will not only weather these storms, but capitalise on the opportunities which are sure to arise.