

# Half-yearly results to 30 September 2010



11 November 2010



**Michael Queen**  
Chief Executive





Overview

Michael Queen

Financial review





Julia Wilson

Infrastructure

Cressida Hogg

Growing 3i

Michael Queen

-  Increased momentum throughout the business
-  Good portfolio performance (gross portfolio return 8.7%)
-  Strategic development
-  Three platforms for growth

# Financial review



**Julia Wilson**  
Finance Director





- Investment of £327m (2009 half-year: £190m)
- Good gross portfolio return of 8.7% reflecting strong earnings growth
- Operating costs down to £89m
- Total return of £117m, a 3.8% return on opening shareholders' funds
- Interim dividend of 1.2p per share
- Growth in NAV per share of 9p up to £3.30
- Liquidity of £2.1bn, net debt only £352m

 Good portfolio performance and balance sheet strength

- Investment of £327m (2009 half year: £190m)
  - £58m new investment
  - more than one-third expanding our investment in portfolio companies
- Realisations £293m (2009 half year: £507m)
  - 11% uplift on opening value
  - almost all to non-financial buyers

# Total return for the six months to 30 September 2010



## Gross portfolio return

Realised profits	£30m
Unrealised value movement	£196m
Portfolio income	£81m

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**Gross portfolio return**      **£307m**

**Return on opening portfolio value**      **8.7%**

## Net portfolio return

Gross portfolio return	£307m
Fees receivable	£30m
Net carried interest	£(12)m
Operating expenses	£(89)m

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**Net portfolio return**      **£236m**

**Return on opening portfolio value**      **6.7%**

## Total return

Net portfolio return	£236m
Net interest payable	£(72)m
Exchange movements	£(29)m
Other	£(18)m

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**Total return**      **£117m**

**Return on opening equity**      **3.8%**

 Good portfolio performance driving returns




# Unrealised profits on revaluation of investments



Six months to (£m)	Sept 2010	March 2010	Sept 2009
Earnings growth	273	151	(322)
Multiples	(71)	72	464
Provisions	(40)	3	(27)
Impairments	(68)	38	54
Uplift to imminent sale	66	(29)	1
Quoted	7	(31)	108
Other	29	27	(51)
<b>Total</b>	<b>196</b>	<b>231</b>	<b>227</b>

Higher quality value growth



 Earnings growth across the portfolio

 Market multiples weakened

Change in the six months	to September 2010		to March 2010		to September 2009	
	% change	Value impact	% change	Value impact	% change	Value impact
Earnings	+8%	£273m	+5%	£151m	-13%	£(322)m
Multiples	-5%	£(71)m	+10%	£72m	+21%	£464m

 Higher quality value growth

Six months to September (£m)	2010		2009	
<b>Gross portfolio return</b>	<b>307</b>	<b>8.7%</b>	<b>316</b>	<b>7.8%</b>
Fees receivable	30		28	
Net carried interest	(12)		(4)	
Operating expenses	(89)		(108)	
<b>Net portfolio return</b>	<b>236</b>	<b>6.7%</b>	<b>232</b>	<b>5.7%</b>
Net interest payable	(72)		(55)	
Exchange movements	(29)		(66)	
Actuarial loss	(7)		(36)	
Other	(11)		6	
<b>Total return on opening equity</b>	<b>117</b>	<b>3.8%</b>	<b>81</b>	<b>3.2%</b>

(£m)	30.9.10	31.3.10	30.9.09
Investment assets	3,679	3,517	3,780
Other net liabilities	(166)	(191)	(180)
	<b>3,513</b>	<b>3,326</b>	<b>3,600</b>
Net borrowings	352	258	854
Equity	3,161	3,068	2,746
	<b>3,513</b>	<b>3,326</b>	<b>3,600</b>
Gearing	11%	8%	31%
Liquidity	£2.1bn	£2.7bn	£2.0bn
NAV	£3.30	£3.21	£2.86

 Conservative balance sheet management



 Good portfolio performance

 Conservative balance sheet management

 Well positioned

# Infrastructure



**Cressida Hogg**  
Managing Partner, Infrastructure





## Corporate/strategic developments

## Investments

Year	Corporate/strategic developments	Investments
1996/2005	→ Infrastructure assets purchased through private equity business	→ PFI investments on balance sheet (Octagon, Alma Mater, I <sup>2</sup> , Alpha)
2005/2006	→ Infrastructure established as a separate business line within 3i	→ Public-to-private of AWG
2007	→ 3iN IPO raises £700m	→ 3iN investment in Oystercatcher
	→ First close of the 3i India Infrastructure Fund	→ 3iIF investment in Adani Power and Soma Enterprises
2008	→ 3iN raises £115m in a Placing and Open Offer and £225m debt facility	→ 3iN divestment of Alma Mater
	→ 3iIF final close - \$1.2bn in commitments	
2009	→ Cressida Hogg appointed as Managing Partner of Infrastructure	→ 3iN investment in the junior debt portfolio, and divestment of I <sup>2</sup>
		→ 3iIF investment in Krishnapatnam Port
2010		→ 3iN investments in Elgin PFI portfolio and Eversholt Rail Group
		→ 3iIF investment in GVK Energy

Legend: 3iN = 3i Infrastructure plc; 3iIF = 3i India Infrastructure Fund

# Infrastructure at 3i – two investment vehicles



- No direct on balance sheet investment
- Investment activity conducted through two investment vehicles

## 3i Infrastructure plc

33.1% direct holding

<b>12%</b>	Total return objective, net
<b>5%</b>	Yield objective
<b>£960m</b>	Net asset value
<b>£138m</b>	Cash remaining*
<b>9.5%</b>	Annualised return to shareholders since inception
<b>£803m</b>	Portfolio value*
<b>15</b>	Assets held directly and indirectly*

- Sector focus on Social Infrastructure, Utilities and Transportation
- Geographical focus on Europe and North America, plus \$250m commitment to 3i India Infrastructure Fund

## 3i India Infrastructure Fund

\$250m commitment

<b>18%</b>	Return objective, net
<b>\$1.2bn</b>	In commitments
<b>\$790m</b>	Net asset value
<b>52%</b>	Invested*
<b>19.3%</b>	Gross IRR since inception
<b>1.6x</b>	Gross money multiple since inception
<b>4</b>	Assets held directly*

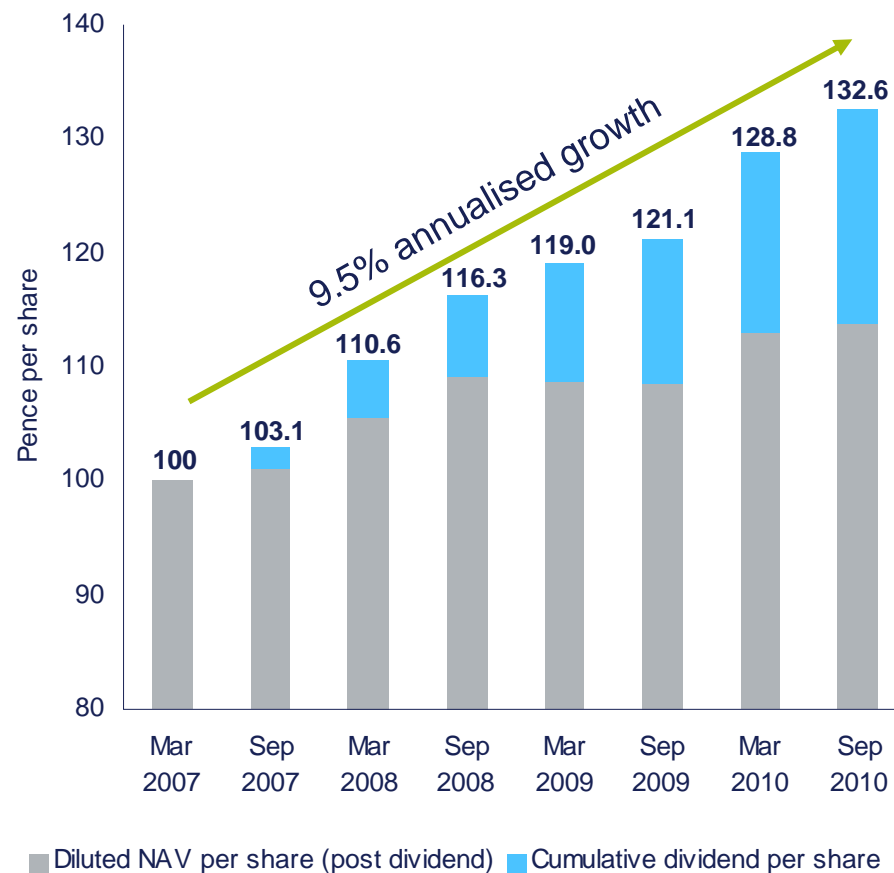
- Sector focus on ports, airports, road and power sectors
- Exclusive geographical focus on India

Note - As at 30 September 2010, except where marked \*, where data includes Eversholt Rail Group and GVK Energy, announced in November 2010





## Continued growth in returns to shareholders

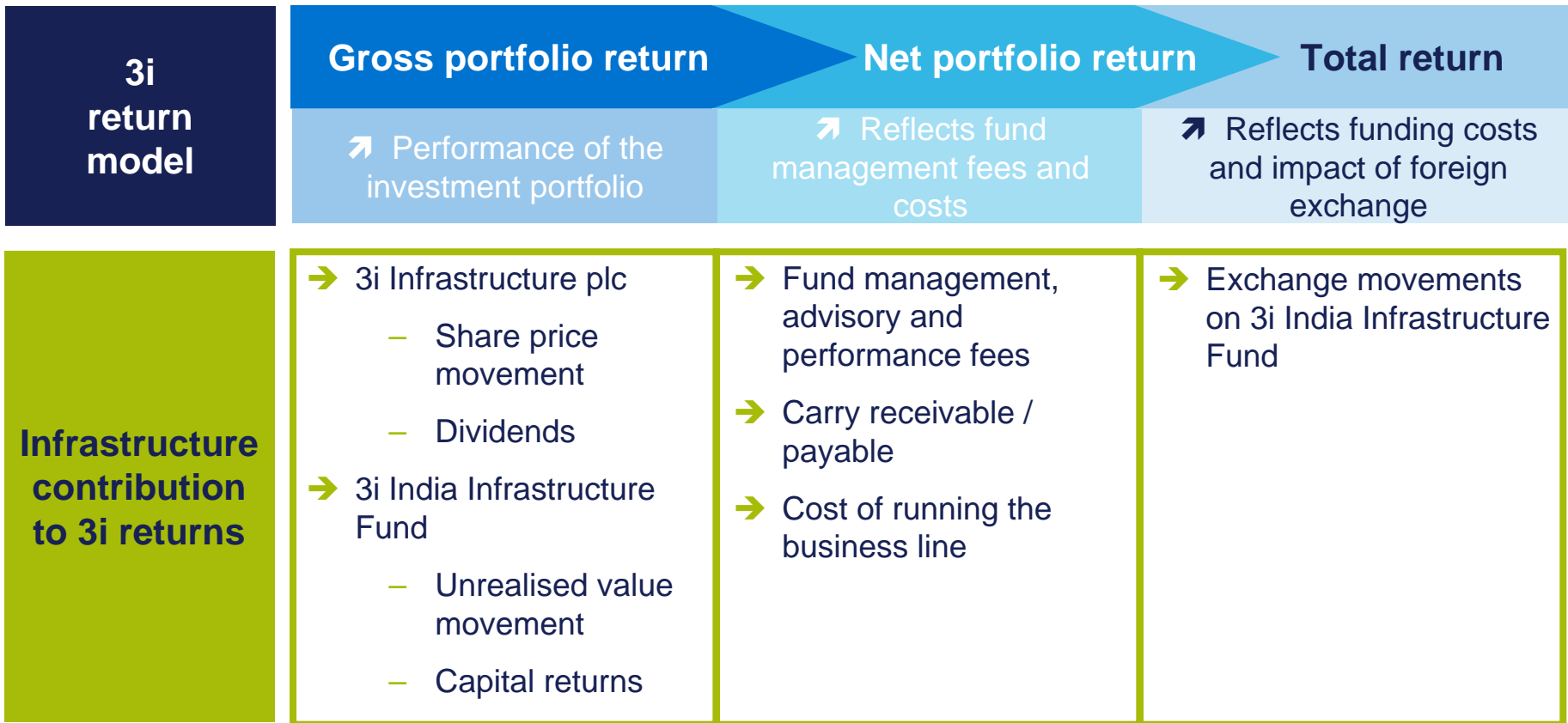




- Valued at 156% of cost:
  - Adani Power: 1.97x  
(2.21x pre-exchange loss)
  - Soma: 1.06x  
(1.21x pre-exchange loss)
  - Krishnapatnam: 1.25x  
(1.13x pre-exchange gain)
- Through J-curve after one year

**Gross IRR 19.3%**

**Gross Money Multiple 1.56x**





Brand



Network



Active Partnership



Business Leaders' Network



Advisers and  
intermediaries



Corporate relationships

A platform for successful future development



## What

- One of the three leading rail rolling stock companies in the UK
- Owns 29% of the total British rail fleet
- 19 fleets on lease to 7 TOCs – primary revenue stream consists of monthly rental payments from the TOCs

## How

- 100% of the asset purchased in consortium with Morgan Stanley Infrastructure Partners and STAR Capital Partners
- Assets valued at £2.1bn – 3i Infrastructure plc contributing up to £176m in equity instruments

## Why

- Strong market fundamentals
- High quality cash flows, contracted for the medium term
- Profitable, with a low cost base
- Defensive, diversified fleet portfolio

# Themes for infrastructure investment



Developed world

<b>Public sector budget constraints</b>	<ul style="list-style-type: none"> <li>• Increased flow of government disposals/privatisations</li> <li>• Opportunities for private investment in government-led projects (PFI/PPP)</li> </ul>
<b>Non-core disposals</b>	<ul style="list-style-type: none"> <li>• Financial institutions and corporates deleveraging → regulatory pressures</li> <li>• Change in tax status for MLPs</li> </ul>
<b>Cyclical recovery?</b>	<ul style="list-style-type: none"> <li>• Volume risk subsiding, favouring pro-cyclical plays</li> <li>• Pick-up in inflation should favour most infrastructure assets</li> </ul>
<b>Policy drivers</b>	<ul style="list-style-type: none"> <li>• “Green economy” – eg UK “green investment bank”/solar subsidies</li> <li>• Increasing use of infrastructure spending as an economic stimulus tool</li> </ul>

India

<b>Strong projected growth</b>	<ul style="list-style-type: none"> <li>• Strong GDP growth trajectory – 7-10%, not export dependent</li> <li>• “Demographic dividend” driving consumption</li> </ul>
<b>Infrastructure deficit</b>	<ul style="list-style-type: none"> <li>• New build infrastructure struggling to keep up with demand</li> <li>• Growth trajectory dependent on investment in infrastructure</li> </ul>
<b>Political momentum</b>	<ul style="list-style-type: none"> <li>• Progressive economic reforms</li> <li>• Strong emphasis on private sector participation</li> </ul>

Growing 3i



**Michael Queen**  
Chief Executive



## Invest

- in growing companies that fit with our values
- with management teams and entrepreneurs, working with them to deliver their full potential
- in our own people, knowledge and networks

## Grow our business

- in areas consistent with our skills
- by strengthening our international network and building our sector capabilities
- with a conservative financial structure using multiple sources of capital

## Grow our reputation

- as a respected and responsible investor
- by continuing to improve and innovate

## One 3i

- a shared set of values
- a consistent approach to the way we do business
- a commitment to excellence in all our activities



## Profile

- French-based calibration service provider
- 60 labs, 11 countries, €110m revenue, €12m EBITDA
- 1,200 employees, 12,000 clients in aeronautic, electronic, defence and automotive sectors
- EV €110m; 3i Eurofund V equity €49.5m for 66% stake
- Won through relationship with management, sector strength (Inspicio, Inspecta, Carso) and Ad Verkuyten from 3i's Business Leaders Network

## Investment case

- Robust growing sector
- Barriers to entry
- Operational improvement
- Buy and build





 New investment

 Portfolio growth

 Strategic investment

# Portfolio growth - MWM


## Investment

- 2007: €360m buyout of MWM from Deutz AG
- Manufacturer of diesel and gas engines with an environmentally friendly focus

## Value creation

- Introduction of Peter Grosch from 3i's Business Leaders Network
- Improved service offering
- Sales force effectiveness programme
- Substantial efficiency gains
- Improved working capital, inventory and supply chain management




 €580m sale to Caterpillar announced on 22 October subject to regulatory approval  
 Proceeds for 3i Group €224m, 2.2 multiple, 25% IRR

- Debt management capability established October 2007
- Objectives
  - in-house banking expertise for our deal teams and portfolio
  - buy high-quality debt in non 3i investments
- Investments made through debt warehouse facility

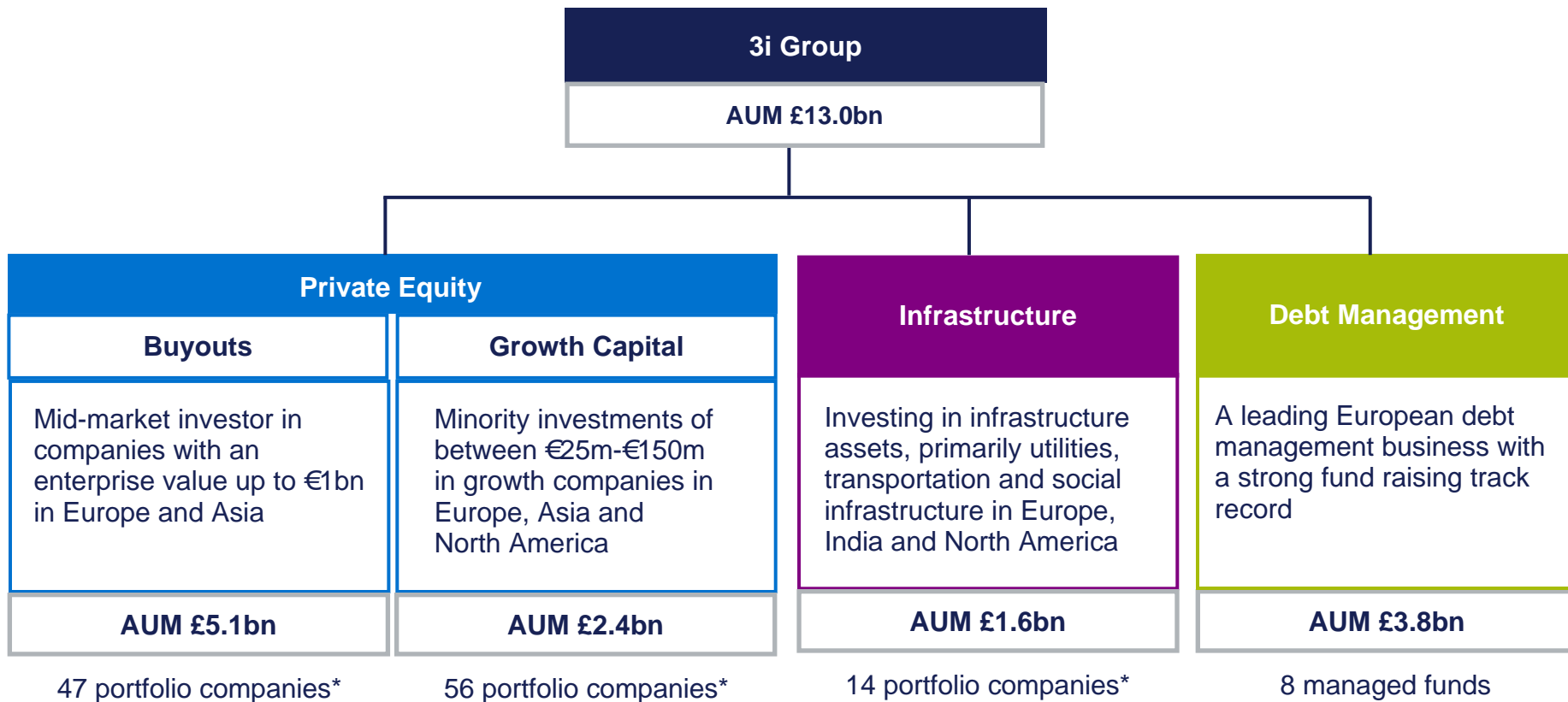
## Acquisition signed 27 September 2010

- Mizuho Investment Management from Mizuho Corporate Bank
- Manages eight corporate, senior and subordinated debt funds

## Rationale

- Builds on 3i's existing debt management capabilities
  - adds team of 28 led by Jeremy Ghose
- Creates a platform to manage multiple funds and has potential to diversify into other debt products (mezzanine, high yield)
- Capacity to grow AUM using 3i's balance sheet
  - adds £3.7bn of AUM
  - number of development opportunities under consideration
- Source of growing low volatility returns

# Our business (post MIM acquisition)



\*Number of portfolio companies as at 30 September 2010



- Convergence of 3i Buyouts and Growth Capital models in Europe  
Same:
  - mid-market focus EV €100m- €1bn
  - investment and portfolio management processes
  - active partnership approach
  - network, sector and Business Leaders Network
- Anticipating the next generation of funds
  - evolution towards regionally based funds
  - many LPs do not differentiate between majority and minority private equity
- Preparing the next generation of leadership in 3i





- Positive feedback from advisers, management teams, BLN and our people
- Eurofund V and Growth Capital Fund
- Committed to manage existing Buyout and Growth capital funds on same governance basis through to the end of their investing periods







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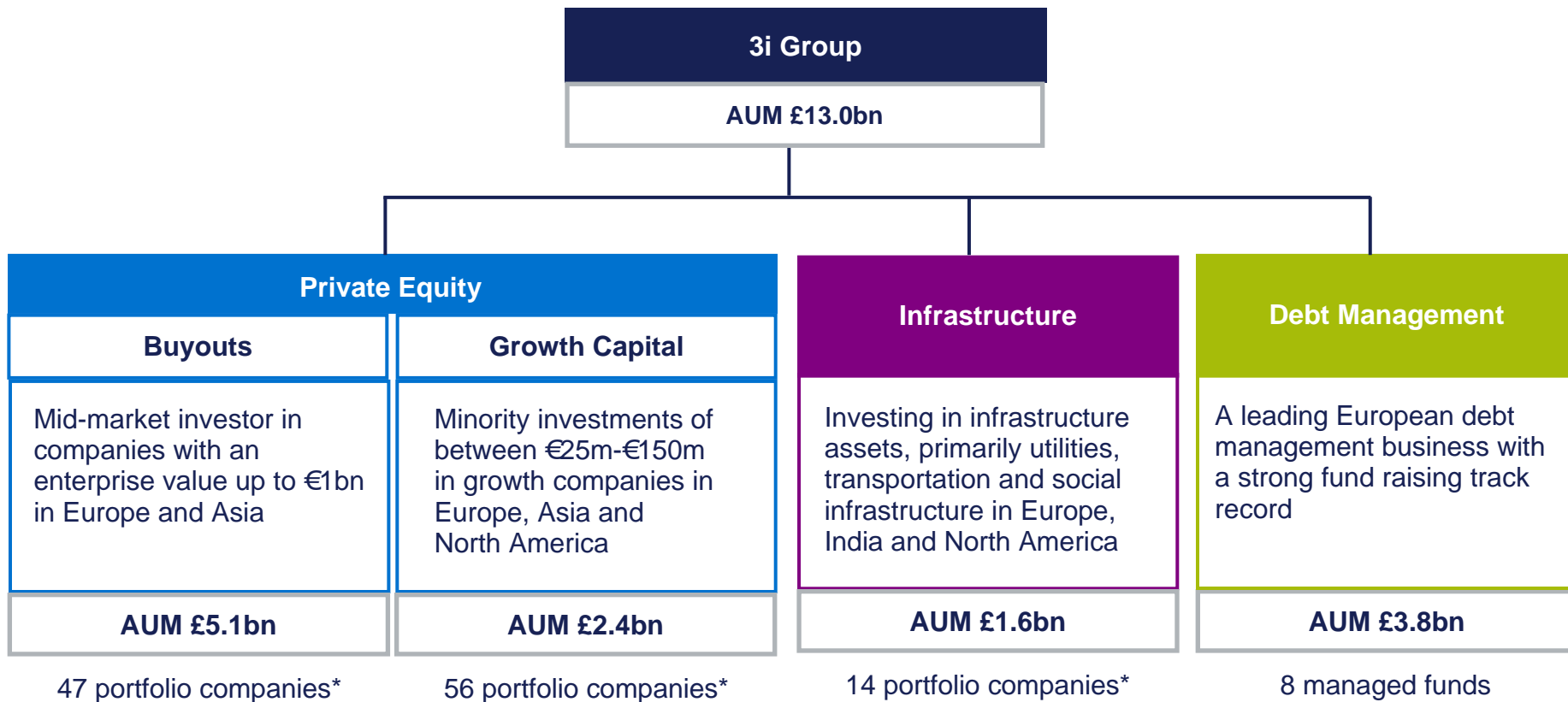


Alan Giddins



Cressida Hogg

# Our business (post MIM acquisition)



\*Number of portfolio companies as at 30 September 2010

## ACR Capital Holdings Pte Limited

asiacapitalre.com

Reinsurance in large risk segments

Geography: Singapore

Business line: Growth

First invested in: 2006

Valuation basis: Industry metric

Proportion of equity shares held: 31.1%

Valuation: £151m



## NORMA Group Holding GmbH

normagroup.com

Provider of engineered joining technology

Geography: Germany

Business line: Buyout

First invested in: 2005

Valuation basis: Earnings

Proportion of equity shares held: 29.2%

Valuation: £139m



## Foster + Partners

fosterandpartners.com

Architectural services

Geography: UK

Business line: Growth

First invested in: 2007

Valuation basis: Earnings

Proportion of equity shares held: 40.0%

Valuation: £127m



## Mémora Servicios Funerarias

memora.es

Funeral service provider	Geography:	Spain
	Business line:	Buyout
	First invested in:	2008
	Valuation basis:	Earnings
	Proportion of equity shares held:	38.1%
	Valuation:	£107m



## Mayborn Group Plc

mayborngroup.com

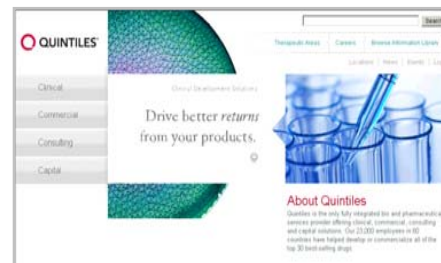
Manufacturer and distributor of baby products	Geography:	UK
	Business line:	Buyout
	First invested in:	2006
	Valuation basis:	Earnings
	Proportion of equity shares held:	37.9%
	Valuation:	£102m



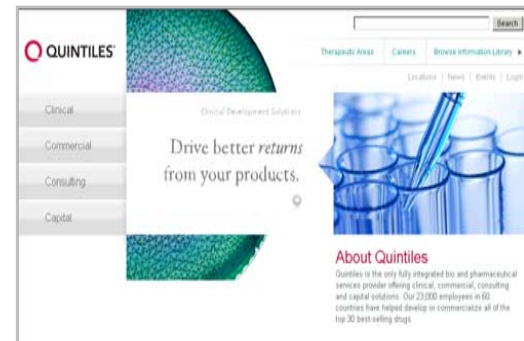
## Quintiles Transnational Corporation

quintiles.com

Clinical research outsourcing solutions	Geography:	US
	Business line:	Growth
	First invested in:	2008
	Valuation basis:	Earnings
	Proportion of equity shares held:	4.9%
	Valuation:	£98m



# Driving portfolio value - largest investments



- International development
- Operational effectiveness
- Improving strategic position
- Buy and build

## Invest

- in growing companies that fit with our values
- with management teams and entrepreneurs, working with them to deliver their full potential
- in our own people, knowledge and networks

## Grow our business




- in areas consistent with our skills
- by strengthening our international network and building our sector capabilities
- with a conservative financial structure using multiple sources of capital

## Grow our reputation

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## One 3i

- a shared set of values
- a consistent approach to the way we do business
- a commitment to excellence in all our activities

-  Continue to deliver good financial performance
-  Integrate MIM
-  Take full advantage of the increase in momentum in our investment activity

 Increased momentum throughout the business

 Good portfolio performance

 Strategic development

 Three platforms for growth

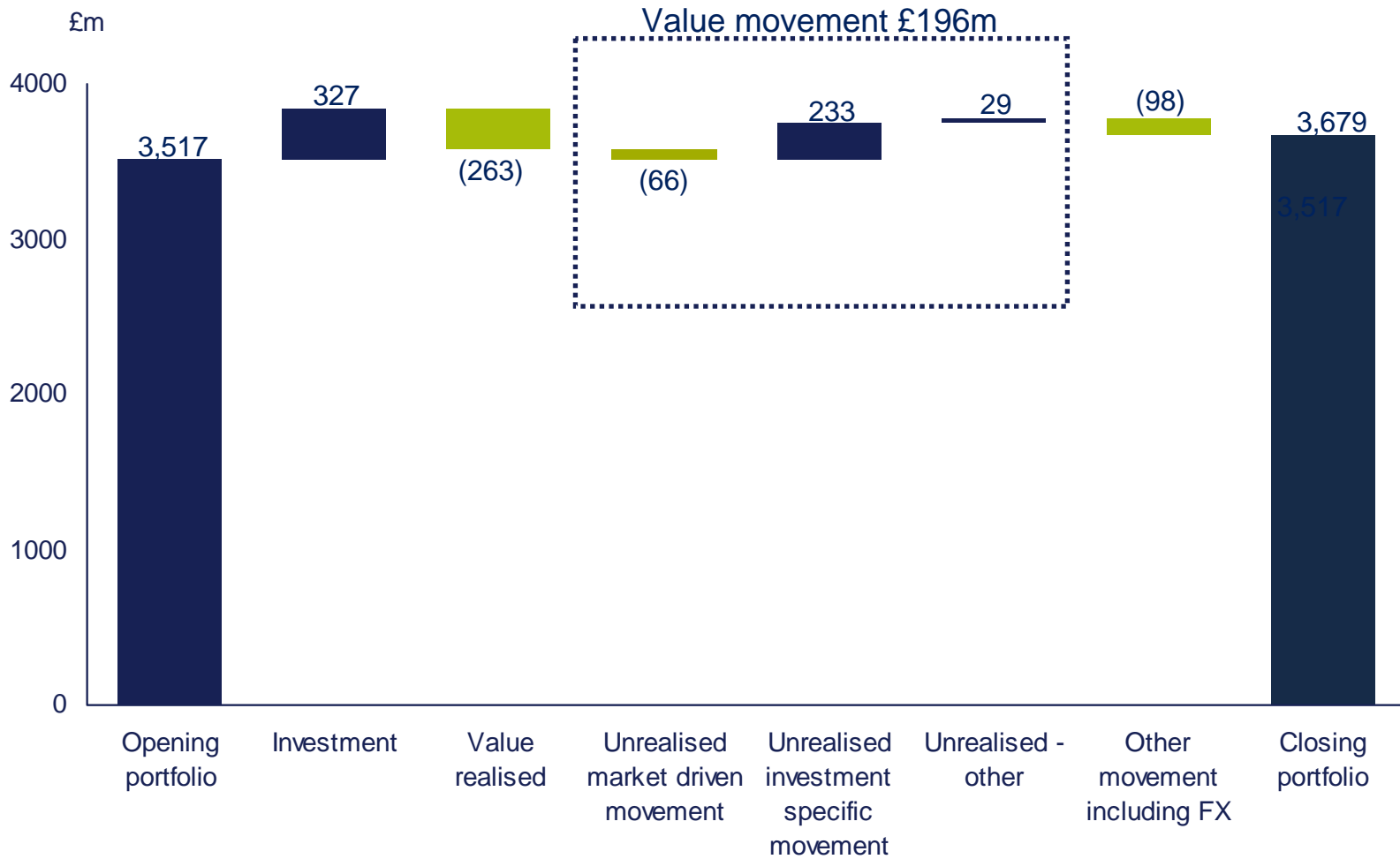






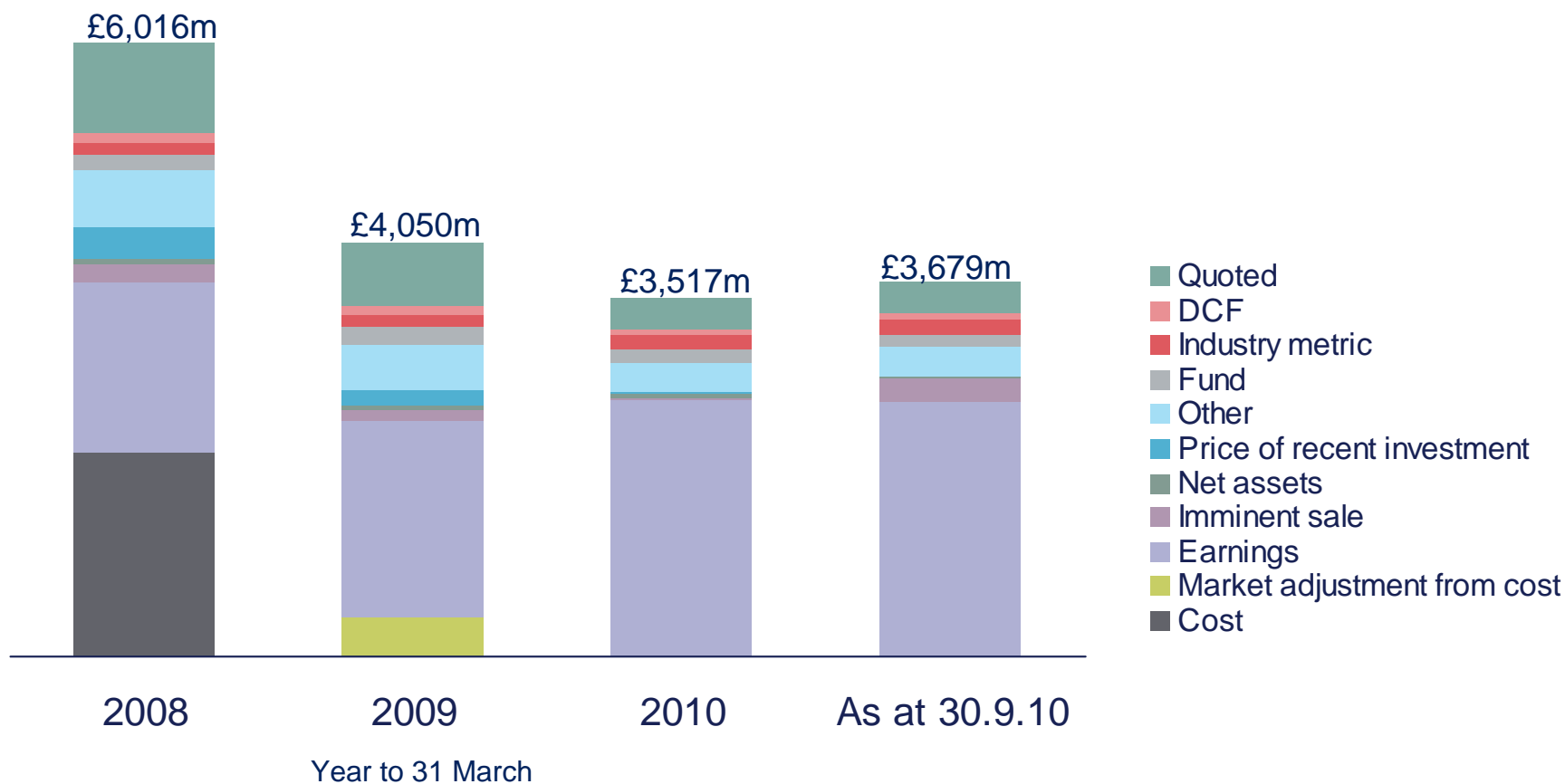
# Appendix

# Movement in portfolio value



<b>6 months to 30 September (£m)</b>	<b>2010</b>	<b>2009</b>
<b>Opening portfolio value</b>	<b>3,517</b>	<b>4,050</b>
Investment	327	190
Value disposed	(263)	(494)
Unrealised value growth	196	227
Exchange and other movements	(98)	(193)
<b>Closing portfolio value</b>	<b>3,679</b>	<b>3,780</b>

- No assets held at cost
- Forecast earnings used, rather than historic, where future earnings are likely to fall



# Top 10 assets by value at 30 September 2010



Company	Business line	Value at 30.9.10 £m	Value at 31.3.10 £m
3i Infrastructure plc	Infrastructure	310	300
MWM GmbH	Buyout	168	127
ACR Capital Holdings Pte Ltd	Growth	151	149
Enterprise Group Holdings Limited	Buyout	145	144
NORMA Group Holding GmbH*	Buyout	139	97
Foster + Partners	Growth	127	113
Mémora Servicios Funerarias	Buyout	107	103
3i India Infrastructure Holdings Limited	Infrastructure	106	99
Mayborn Group Plc*	Buyout	102	85
Quintiles Transnational Corporation	Growth	98	127
<b>Top 10 value £m</b>		<b>1,453</b>	<b>1,407</b>

\*Moved in to top 10 assets at 30 September 2010

NB Hyva excluded for commercial reasons

## Vintage IRR performance

Vintage year	Cost remaining	As at 30.9.10	As at 31.3.10	As at 31.3.09
2010	n/a	n/a	n/a	n/a
2009	98%	9%	9%	n/a
2008	53%	(11)%	(18)%	(30)%
2007	73%	22%	25%	25%
2006	12%	49%	49%	46%

- 49% of direct portfolio value
- £5.1bn assets under management

	Sept 2010	March 2010	March 2009	March 2008	March 2007	March 2006
Gross portfolio return	8%	38%	(34)%	57%	54%	29%



## Vintage IRR performance

Vintage year	Cost remaining	As at 30.9.10	As at 31.3.10	As at 31.3.09
2010	100%	n/a	n/a	n/a
2009	76%	3%	(7)%	n/a
2008	58%	(3)%	(3)%	(16)%
2007	58%	0%	(2)%	(2)%
2006	28%	22%	24%	23%

- 36% of direct portfolio value
- £2.4bn assets under management

	Sept 2010	March 2010	March 2009	March 2008	March 2007	March 2006
Gross portfolio return	8%	11%	(44)%	21%	48%	26%

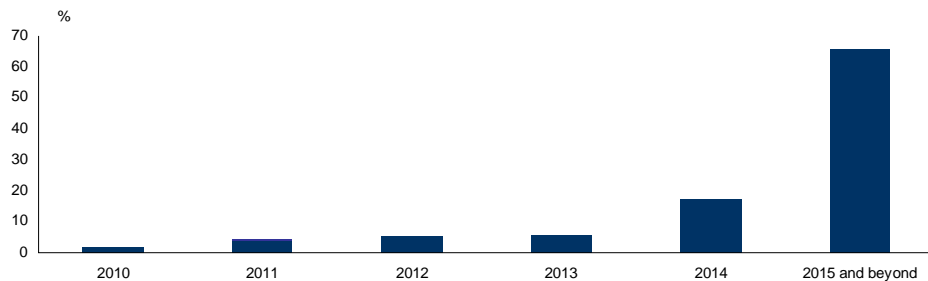




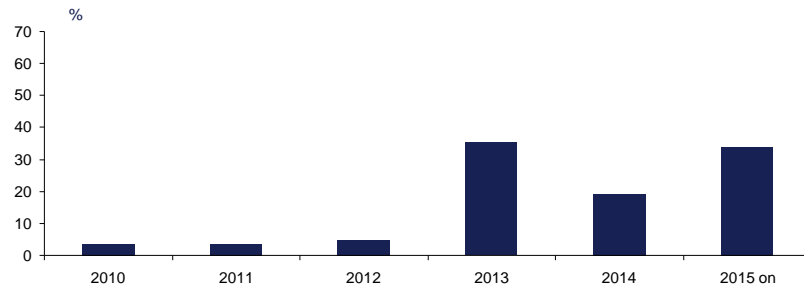
# Portfolio leverage – Buyouts and Growth Capital



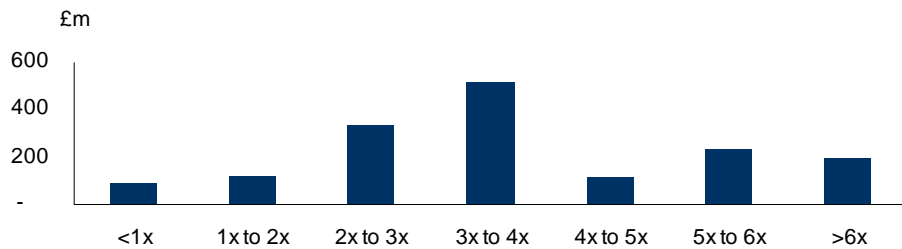
### Contracted repayment profile on acquisition debt Buyouts portfolio (1)



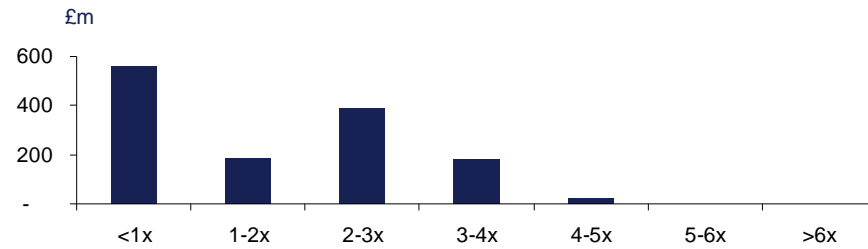
### Debt repayment profile Growth Capital portfolio (1)



### Ratio of net debt to EBITDA Buyouts portfolio (2)



### Ratio of net debt to EBITDA Growth Capital portfolio (2)



£

m(1) Repayment index weighted by 3i carrying value at 30 September 2010; (2) Weighted by 3i Group carrying value at 30 September 2010

Contribution to Group results (£m)	6 months to 30.9.10	6 months to 30.9.09
Realised profits/(losses)	-	-
Unrealised profits/(losses)	22	47
Portfolio income	9	10
<b>Gross portfolio return</b>	<b>31</b>	<b>57</b>
Fees receivable from external funds	9	8
Assets under management	1,611	1,528