3i annual results to 31 March 2012
Script for Sir Adrian Montague, Chairman

Welcome

Good morning and welcome everyone.

Although this is formally the announcement of our results for the financial year to 31 March 2012, it has been a busy period since the year end, and we would like to take you through the considerable progress we have made since March, including this morning's announcement of Simon Borrows as 3i's new Chief Executive.

The agenda for today's meeting is set out on this slide.

First, I will outline to you the strategic mandate the Board has agreed with Simon and describe the process we undertook that led to his appointment.

Julia will then provide an update on the financial performance of the Group for the year to 31 March 2012 and discuss portfolio performance, costs and management of the balance sheet. She will also provide greater detail on the proposed return of capital and the parameters under which these returns will take place.

Julia will hand over to Simon, who will briefly introduce himself and reflect on the impressions he has formed of 3i since joining the firm late last year, before setting out how he intends to implement the strategic mandate given to him by the Board.

Board's strategic mandate

Since the year end, I have been consulting widely with our largest shareholders to obtain their views on four key areas identified by the Board as needing further attention. I am very grateful to the shareholders for their feedback regarding the process we have followed in appointing Simon and in settling the mandate he and the Board have agreed.

Taking each area in turn. As you know, we have been seeking to diversify the business from its core focus on private equity, building on the successful track record of our infrastructure business, and acquiring a debt management business. The aspiration has been to build a diversified asset manager with more stable and visible revenue streams.

We have also consulted on the steps we have been taking to implement this strategy. First, as regards the shape and location of our investment teams. We recognise that each of our markets, and the geographies in which we work, are continually changing. Activity levels in the European market have not recovered, but the new management in the private equity business is making good progress in refocusing the business. Infrastructure is an attractive asset class and we have made excellent progress in a highly competitive market. And there are attractive consolidation opportunities in debt management. We have, however, asked our new Chief Executive to determine the best shape and investment strategy for the business going forward in the light of the resources available to us.

Second, costs. We have made a lot of progress in reducing costs under Michael's leadership. Costs are approximately £110 million lower than three years ago. But there is more to do, and Simon will be addressing this alongside determining the right shape for the business.

The next area was to review the allocation of capital between returns to shareholders and investment opportunities, taking into account the Group's balance sheet position and the availability and attractiveness of investment opportunities, both external and in 3i's own shares.

I do not want to pre-empt Julia's presentation of the conclusions that the Board has reached and the parameters that have been set for future returns of capital. I would like to say, however, that we have listened carefully to the feedback we have received and have formulated our proposals with a view to allowing our shareholders to participate directly in the value flowing from realisations.

Finally, there is a communications point I have discussed with shareholders. We are a UK listed company, followed by UK based analysts with a register made up substantially of UK investors and widely commented on by the UK press. So it is natural that the performance of our UK assets, that include many household names, tends to overshadow the investments we have on the Continent, which have been amongst our strongest performers. So in order to show our investment performance in a proper perspective, we have today implemented a new approach to disclosure in which we are giving more information about the performance of the more significant investments in our portfolio.

Appointment of new Chief Executive

That brings me to the appointment of our new Chief Executive.

As you all know, the Board began a process to identify a successor to Michael at the end of March, following the announcement of his intention to step down as Chief Executive. The Board had a very clear view of the characteristics it was seeking in its new Chief Executive, and this seemed to match the views of those shareholders we consulted. It was against this backdrop that the Nominations Committee began a process in which it considered both internal and external candidates. A long list of well over a dozen candidates was reduced to a short list of four, and it is with great pleasure that we have been able to announce today the appointment of Simon as our new Chief Executive.

Many of you will already know Simon, but I should introduce him formally. Simon has been Chief Investment Officer and a member of the Board since he joined the company in October last year. Prior to joining 3i, he was Chairman of Greenhill and Co International LLP, having previously been co-Chief Executive of Greenhill and Company Inc, a leading independent investment bank listed on the New York Stock Exchange. Before founding the European operations of Greenhill and Co in 1998, he was the Managing Director of Baring Brothers International Limited.

Annual General Meeting

Simon already knows the business well and has a clear view of the priorities for action. He will need some time to prepare detailed plans for the future, but the Board has endeavoured to set out, in conjunction with Simon, a set of clear, tangible and credible initiatives, with a view to determining 3i's future path.

The next step, therefore, is to ensure that we have a stable platform from which to move the business forward. We would like to put an end to the recent uncertainty that has affected the firm, and to seek a powerful demonstration that the shareholders are willing to give their full support to Simon and the plans we are outlining today.

We have therefore decided to bring our Annual General Meeting forward to 29 June. Therefore our priority will be to execute our strategy, to improve performance and to deliver long-term shareholder value.

I would now like to hand over to Julia.

3i annual results to 31 March 2012

Script for Julia Wilson, Finance Director

Update and performance

Thank you Adrian and good morning everyone.

Key topics

As I take you through the financial results of the Group for the year ended 31 March 2012, there are three key areas that I will focus on:

1. The performance of our portfolio and how it has developed through the year;
2. The progress we have made regarding our operating cost base; and
3. The priority we have given to managing our balance sheet and our ability as a consequence to enhance direct returns to shareholders.

Key financials

A quick summary first of the key financials for the year, before moving to the more material aspects in greater detail:

- Gross portfolio return of minus 8.2% on opening portfolio value is driven by lower than normal realised profits, valuation write-downs reflecting lower multiples, some underperformance in the portfolio, and a net fall in the quoted portfolio.

- Our model assumes dilution from gross portfolio return to net portfolio return, as a result of net operating costs and I will use the next slide to talk through how each of our business lines have performed.

- When gross returns are below our target levels, there is no gearing benefit from net debt, and so total return of minus 19.5% reflects the dilution of our net interest cost. It also reflects the impact of the pension fund valuation which we settled at the half-year.

- In keeping with the distribution policy we announced in November, the Board has confirmed its intention to pay a final dividend of 5.4 pence per share subject to shareholder approval, making a total dividend for the year of 8.1 pence per share, and a cash cost of £75 million. I will come on to the evolution of our distribution policy later in the presentation.

- Our assets under management have reduced in the year. Clearly, realisations contribute to this. However, the more material factor is the effect of the end of Eurofund V's investment period, when we switch from including total commitment to the amount invested, offset somewhat by new funds in Debt Management.

- Finally, we remained selective with new investment, and I am pleased to say that the investments we have made in recent vintages are showing good performance overall.

- And realisations of £771 million provide real evidence of the strength of our portfolio. The money multiple on the 10 most material transactions averaged 2.9x cost.

Net portfolio return by business line

As I set out at the half year, we have enhanced our disclosure to include net portfolio return by business line.

79% of our balance sheet is invested in the private equity portfolio and so the performance of that business line is dominated by the gross portfolio return. I will be talking shortly in more detail about the drivers of the £339 million negative return in the year, and operating costs more generally.

Our Infrastructure business line continues to perform well.

Infrastructure performance

The gross portfolio return of £11 million includes an increase of £22 million in the value of our 34% holding in 3i Infrastructure plc as well as £18 million dividends received on our stake.

As Cressida Hogg explained in detail when announcing the results of 3iN last week, strong performance in its European investments have been offset by a reduction in the valuation of our investments held through the Indian Infrastructure Fund.

This is principally due to currency and specifically the share price performance of Adani Power. However, the operational performance of the Indian portfolio is broadly in line with expectations.

Importantly from a 3i Group perspective, the gross returns from 3iN are enhanced through fee income of £25 million resulting in a 2.8% return over opening book value.

Group investment in Infrastructure included £33 million for the exercise of 3iN warrants. It also included £28 million of balance sheet investment in LNl, a Nordic electricity and heating distribution network business, made alongside 3iN

Debt Management performance

Debt management is our newest business line, and performance since the acquisition of the Mizuho business 12 months ago has been very strong.

The results here reflect the fact that this business is in development. So last year's return benefited from the realisation of the original debt warehouse.

And when you look at the net portfolio return of the business this year, it is worth noting that the carry and cost lines include £6 million of acquisition accounting adjustments.

Excluding these, the underlying return is £9 million, somewhat better than presented. But, most significantly, dynamic investment management has meant that fees have accrued more quickly than planned, and as a consequence, cash generated by the business has already covered the original acquisition cost.

Jeremy Ghose continues to look at growth opportunities for this business, to provide further fee income and return to the Group.

Key financials

Returning then to the three most significant elements of our returns in more detail, namely:

- Portfolio performance ;
- Operating costs; and
- The return effect of our conservative balance sheet strategy

Portfolio performance - overview

I want to take you through the performance of the portfolio as a whole and then how that is reflected in our valuation.

At the highest level, and not surprisingly, our portfolio performance reflects the markets and macro environment in which it operates, and the prevailing market conditions that existed when the investments were made.

In the private equity portfolio, which accounts for 79% of the total:

- We have seen strong growth in Northern Europe and the US, which is where we have targeted the investments made since 2009. Northern Europe has provided our strongest realisations in the year.
- Conversely, we have seen fragility in Spain, the UK, and more recently, France, which has impacted performance in the year.

Simon will talk through these aspects in more detail later.

As we would expect, our Infrastructure portfolio has been much less impacted by the European macro issues, and the portfolio continues to perform well.

As a result, materially all of the reduction in portfolio value is attributable to the private equity business, and within that two-thirds relates to the UK, Spanish and French assets.

Encouragingly, where we have taken the opportunity to realise investments, we have achieved a good multiple, 2.9x on the largest ten sales, seven of which were based in Northern Europe

Private Equity portfolio - 9% value weighted earnings growth

To give you some quantification of the overall performance, we have seen earnings growth in the portfolio of 9% in the 12 months to December 2011 on a value weighted basis, and you can see here how that is spread across the portfolio.

By value, 80% of the portfolio grew its earnings and 42% by more than 10% in the year.

The last two vintages have performed better than average with value weighted earnings growth of 20% in the year.

Private Equity portfolio – increased disclosure

It is clear from discussions with shareholders and analysts that there is a strong desire for greater detail on the performance of individual portfolio companies, and as a whole. We have to balance this appetite with our confidentiality obligations to the private companies in which we invest, and take account of disclosure restrictions imposed in minority investing positions.

We are therefore providing some new disclosure in the appendix to this presentation at an individual company level for the Top 25 assets on an anonymous basis.

These assets account for 66% of the total portfolio value.

We have provided revenue data to give a sense of scale, and earnings growth data to demonstrate momentum.

I'm sure you will want to look at the data in detail, but it shows, for example, that of the top 25, 20 grew earnings in the last year, and nine by more than 10%.

Portfolio performance – March valuations

So now let me turn to how that performance is reflected in the valuations at 31 March.

At 31 March, the earnings used in our valuations typically are based on the management accounts of the companies to 31 December. However, where we expect future earnings to be lower than those December 2011 management accounts, we use forecast earnings

We have used forecast for only 8% of companies in the portfolio at March. This is an improvement on the position at 30 September, when 23% of companies were valued using forecast earnings, and 31 March 2011, when the number was 12%.

Of course, multiples are the other significant driver of valuations. The weighted average EBITDA multiple was 7% lower than last year.

Although the market was volatile in the year, equivalent sectors and geographies fell on a net basis by about the same amount. However, in a number of cases, particularly in geographies with more challenging economic conditions, we have also reduced the multiple to a greater degree than the comparable set.

As a result, the weighted average EBITDA multiple for the portfolio valued on an earnings basis was 8.2x pre-discount, and 7.5x post.

Unrealised value movement

So the effect of that underlying earnings and multiple movement can be seen here in the earnings, multiples and impairment lines. To be clear, impairments are simply the impact of an earnings based valuation on the debt elements of our capital structures.

Other factors to note include:

- Provisions of £138 million relating to six companies across a range of geographies and sectors. Two of the six are in Spain, with one significant provision of £83m relating to GES, a renewable power service provider. About half of this write-down on GES had been recognised at the half year.

- The value of the quoted portfolio fell by £20 million in total, but includes the increase in 3iN of £22 million, offset by reductions in our investment in Adani Power, which is part of the Indian Infrastructure portfolio, and Gain Capital, a US Growth Capital investment which floated last year.

- The most significant item in the industry metric category relates to our investment in ACR, the Singaporean based Asian re-insurance business, which was heavily impacted by the Thai floods at the end of calendar 2011. This led to a value movement of £29 million.

Finally, it is worth noting that spread across the categories is £47 million of value movement relating to dividends from the portfolio, which are included as income elsewhere in our returns.

Looking then to the effect that these unrealised value movements have had on the balance sheet value.

Portfolio value - £3,204m

We started the year with a portfolio value of £4.0 billion.

New investment of £374 million in the year in nine companies, further investment of £109 million in the existing portfolio, and capitalised interest increased the portfolio by £646 million.

The value of assets sold in the period was £748 million.

And the unrealised value movements I have just been talking about reduced the portfolio by £498 million.

We partially hedge currency movements and a weakening of the euro and Rupee in particular over the year gave rise to a net FX loss of £49 million in our total return. The gross impact on the portfolio is the £101 million movement seen here.

At the end of year, we had a portfolio of £3.2 billion, 79% of which relates to the private equity portfolio.

Of that private equity portfolio:

- by vintage, the proportion of the portfolio relating to investments made after 2009 has now increased from 10% to 28%.
- 69% is focused on Northern Europe, the US and Asia where the macro environment is more positive.
- within Southern Europe the proportion of the private equity portfolio in Spain is now only 7%, down from 11%.

Portfolio performance - disclosure

At our half year announcement in November 2011, we detailed each business line's net portfolio return, for the first time allowing visibility on our key business measure.

We announced in March that, to provide more transparency regarding the performance of the business, particularly against a volatile market backdrop, we will be providing a quarterly NAV update starting in July, for the quarter ending 30 June.

And today we have included in our presentation and press release further new disclosure that seeks to provide more comprehensive detail and information about our key portfolio companies. In addition to that, I have already talked about this morning we are also providing:

- Additional commentary regarding our top 10 assets (which account for 43% of the portfolio) to make clearer our investment strategy and view on current performance;

- Further information regarding earnings growth, net debt levels and refinancing across the portfolio; and
- The multiple of original cost achieved on our largest 10 exits in the period.

We believe this increased level of disclosure will allow shareholders to more clearly track and understand our progress.

Operating expenses – progress and next steps

The second area I wanted to focus on today was cost.

There has been considerable commentary about the operating cost base in recent months and so I want to give you some more detail on:

- costs;
- what has been achieved to date in reducing them, and;
- what is planned in the next 12 months.

As you can see from this chart, we have made significant progress in reducing our cost base.

The peak run rate during the year ended 31 March 2008 was £290 million with 788 people. By 31 March 2012, operating costs are 38% lower, at £180 million and headcount has reduced to 435. And this reduction is despite the addition of 30 people in the debt management business and eight people in Brazil.

In November 2011, we announced changes to our private equity team and indicated that we expected that to result in a reduction in costs of at least £15 million. Since completing those changes, and taking account of consequent changes to support services and property requirements, we expect the annualised benefit of these measures to be £25 million in 2012.

Managing the balance sheet

Finally, the third area I said that I would focus on today was the effect of conservative balance sheet management strategy on the total return.

Following the rights issue in 2009, we set some parameters within which to manage liquidity, net debt and gross debt, and thus to manage gearing.

We have held high levels of liquidity throughout this period of economic uncertainty, which has not recovered in any sustained way since 2009.

The liquidity is set to ensure that we are able to meet our fund commitments, debt and pensions obligations, and meet the running costs of the business for two years, assuming that there are no realisations and that refinancing is unavailable.

This is conservative but there have been several occasions in the last two years when refinancing markets have shut, and in the last six months we have had times when realisations appeared to have slowed dramatically.

But this conservatism does have a cost. Gross interest payable was £103 million in the year ended 31 March 2012. To address this, we have been reducing the amount of gross debt and extending its maturity.

As you can see from this chart, gross debt has reduced from its peak of £2.6 billion in 2009, to £1.6 billion at 31 March 2012, 21% in the year.

We have decided not to refinance the outstanding maturity of our FRN, which matures in June, and, as a consequence of that and other scheduled repayments, expect gross debt to fall by at least another 20% to £1.3 billion at 30 September 2012.

Because the debt that matures in the next six months is some of our cheaper financing, interest will not fall by the same level as gross debt, but, all other things being equal, I expect it to be of the order of £90 million in this year. And, of that £90 million, £52 million relates to our long dated debt repayable in 2017, 2023 and 2032.

The Board's intention is that we continue this trajectory with a target of reducing gross debt to less than £1billion by June 2013. Thereafter, we will set that as a limit.

This continued focus also means that the level of gearing, at 18% at 31 March, remains within our expected range of 0-30%

Capital distribution

The significant progress we have made in reducing our debt and maintaining our conservative balance sheet approach through volatile financing and M&A markets, has provided the flexibility for the Board to make further progress in defining how it intends to allocate its capital and provide returns to shareholders.

We announced a rebasing of the dividend in November, and consistent with that have today confirmed a final dividend of 5.4 pence per share, a total dividend payout of 8.1 pence per share, subject to shareholder approval. This was an important step in determining the appropriate allocation of capital between returns to shareholders and investment opportunities

At the time of making that announcement, we were not specific about defining the basis of distribution. Today, we have set out the parameters which will define our future distribution policy, strengthening it in order to give shareholders a direct share in the success of the Group's realisation activities.

Provided gearing remains less than 20%, the Board therefore intends to distribute to shareholders, further amounts such that the total distribution in a year, including the regular dividend, represents between 15% and 20% of gross cash realisations.

The method of distribution will depend on a number of factors including size of distribution and share price, but may include a special dividend, use of the standing share buyback authority or other capital distribution.

In the next twelve months our priority will be the reduction of gross debt and we expect to implement this new policy progressively in the light of the performance of the business, progress in implementing the Chief Executive's strategic mandate and the strength of the Group's cash flow.

As we currently expect realisations for the year to be lower than the £771 million we received last year, I do not expect that any additional distribution will be made in the calendar year.

The Board firmly believes this policy provides a comprehensive and flexible means of ensuring that shareholders participate directly in the returns of the Group and we will update shareholders on the progress that we are making towards this new distribution policy as well as in reducing gross debt on a half yearly basis.

Summary

So to summarise:

- The portfolio performance reflects a period of market and political volatility but there is evidence of good performance in the more recent vintages. However, stability in the Eurozone with all its implications will be critical for sustained improvement
- We have continued our focus on operating efficiency with tangible results evident in the reduced operating costs and expectation of further reduction next year.
- Our conservative balance sheet strategy has provided strength in fragile markets but we have taken further steps to reduce its dilutive effect on returns.
- And as a result of progress in managing the balance sheet we have today announced measures to enhance our distribution policy giving shareholders direct participation in our cash realisations.

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Script for Simon Borrows, Chief Executive

Slide 26 - Introduction

Thank you Julia.

The last time I took to a platform to speak for 3i was at the company flotation in 1994. Naturally, I'm delighted to see there are some very familiar faces from that time still following the company.

3i was very different in those days. It was mainly a UK-based business, operating out of over twenty local offices with a venture business in the US which was running down its portfolio. The total 3i portfolio had approximately £3 billion of value. And there was very little debt in the portfolio. The portfolio yielded approximately 7% and paid for the running costs of the Group. It also allowed for an attractive dividend to shareholders. There were about 3,400 individual investments and they averaged around £1 million in size. Generally, the investments were passive in nature, with relatively few buyouts. And, by the way the stock market was nearly as tricky then as it is right now.

Today, the Group could not be more different. We have offices all over the world and only one investment office in the UK. We have approximately 100 core investments and we control nearly half of them by value, together with our external managed funds. I say control because we tend to have a majority of the equity and it sits on top of quite a lot of leverage. We now have three strong capabilities: Private Equity, Infrastructure and Debt Management.

The Group manages more of its own funds, as well as core third party funds today, but in general the investments after interest costs provide a much lower cash yield than the 3i of 1994.

Looking at the challenging world of today, we are much better placed to prosper from our three capabilities in mid-market Private Equity, Infrastructure and Debt Management than we would have been if we had remained a pure Private Equity business. We have also built an international network. And, that international network has true competitive advantage in important geographies like Northern Europe and India as well as the Group's traditional base here in the UK.

I think it's fair to say that we currently have an imbalance between our costs and our income. It's also fair to say that we have a difficult legacy portfolio from the peak years of 2007 -2009. But these are issues we can deal with in the coming years. And in doing that, we can create a 3i which will be more focused and a lot leaner. We should then be capable of producing strong cash returns for our shareholders and our limited partners by using our deep sector expertise and a more focused international footprint.

After Michael approached me last year, I agreed to join 3i as Chief Investment Officer in October because I thought it sounded like a fascinating role. And, I certainly haven't been disappointed. The range of people, the range of investments and the sorts of issues we're dealing with have surpassed my expectations. It's been both stimulating and challenging right from day one.
The team at 3i want to get back to the top of their game. And, I have little doubt they are up for the challenges ahead!

Now I'd like to give you some of my perspectives on the current business.

Slide 27 - Private Equity portfolio – by geography

We have a Direct Private Equity portfolio of some £2.5 billion spread across these geographies and I have managed to get round a good number of these offices in the last six months.

In the main, I have been very impressed with the teams I've spent time with.

The traffic lights indicate my assessment of the portfolios by geography. You can clearly see the problems we have in Southern Europe and Spain has been particularly tough for us over the last year. You can also see the strength of our portfolios in Northern Europe as well as a good portfolio in the US. We have recruited a first rate team in Brazil, which looks to be a promising market both for investment and for attracting third party funds.

Another observation I would make is that many of the challenged investments from that 2007-2009 period came out of the UK and Spanish offices. Our well established teams in Germany, Benelux and France have, in the main, invested at a steady rate in familiar sectors and they have far fewer problems in their portfolios. Now, the 'macro' is still very difficult and uncertain, but in these geographies, we have good teams and solid portfolios.

Slide 28 - Private Equity portfolio – by sector

So what about our sector capabilities? If you take a long term perspective, 3i has generated very good returns from these four sectors which now dominate the portfolio. In our strong offices, we tend to have up to a dozen professionals with a good blend of operational and financial skills. Each team will typically be headed by two partners. Let me give you a few examples: If you are the Chief Investment Officer at 3i and your German team brings you an industrial proposal, you know it will be interesting and well thought through. You also know that it should be capable of providing strong returns. The same can be said of consumer in Benelux or France, or the testing and inspection unit out of our London team. And, I don't lose much sleep if Cressida and her team turn up with an Infrastructure proposal.

Side 29 - Infrastructure portfolio

Which brings me on to Infrastructure. 3i is world class at Infrastructure investing. I don't need to dwell on this portfolio, but I would like us to do more in Infrastructure and continue to bulk up that portfolio. I like the long-term and cash-generative characteristics of the majority of our investments in this area.

Slide 30 - Debt Management

In Debt Management we continue to grow third party funds. Today, total AUM is now approaching £3.4 billion. Debt Management makes a significant contribution to our operating cash flow. Jeremy and his team performed impressively last year and he knows I'm keen he keeps up the momentum this year.

Slide 31 - New investments

Apart from a good number of quality bolt-on acquisitions for our portfolio companies, I have chaired the Investment Committee four times over the last six months looking at new investments. Two Private Equity investments and two Infrastructure investments. I have also turned away a number of proposals because we've tried to be highly selective in this tricky environment.

This short list illustrates pretty well 3i's sector capabilities and international reach which is so important in these challenging times.

In Private Equity, we have invested in GEKA, a German manufacturer which is the world technological leader in mascara brushes and we've backed a roll-up Cable TV operator in Brazil, Blue Interactive Group. And, in Infrastructure, we have invested in the second largest electricity distribution network in Finland and new Indian toll road concessions.

There are very few of our competitors who could have produced four such varied and attractive investment opportunities in the current environment.

Slide 32 - Investment strategy and asset management

My last two slides give you an idea about our priorities around asset management and around our investment processes as well as where I will be focusing initially as CEO. You can see from slide 32 where we have concentrated over recent months. Slide 33 shows our focus going forward. Our costs and our balance sheet will be critical areas for us.

Slide 33 - Key areas of focus

Everybody at 3i gets that we have to re-demonstrate our investing and asset management skills to shareholders and to our LPs. We are confident that our recent portfolio of investments will do just that. We are also confident that our shareholders and LPs will enjoy strong cash on cash returns as these investments mature and are realised.

Thank you for your time. We would now be happy to take your questions. I'd particularly appreciate it if you could direct all the tough ones to Adrian and Julia.

Thank you