

Governance and corporate responsibility



18 June 2009

Introduction



Baroness Hogg
Chairman





- Welcome and introductory remarks
- Update on 3i
- The three Rs
 - Remuneration
 - Risk
 - Responsibility



- Board changes
- Annual results to 31 March 2009
- Rights issue
- The market



Appointment of new Chief Executive – Michael Queen



- Finance Director 1997 to 2004
- Led transformation of Growth Capital business line
- Launched and led successful Infrastructure business line
- High credibility within industry





Other Board changes



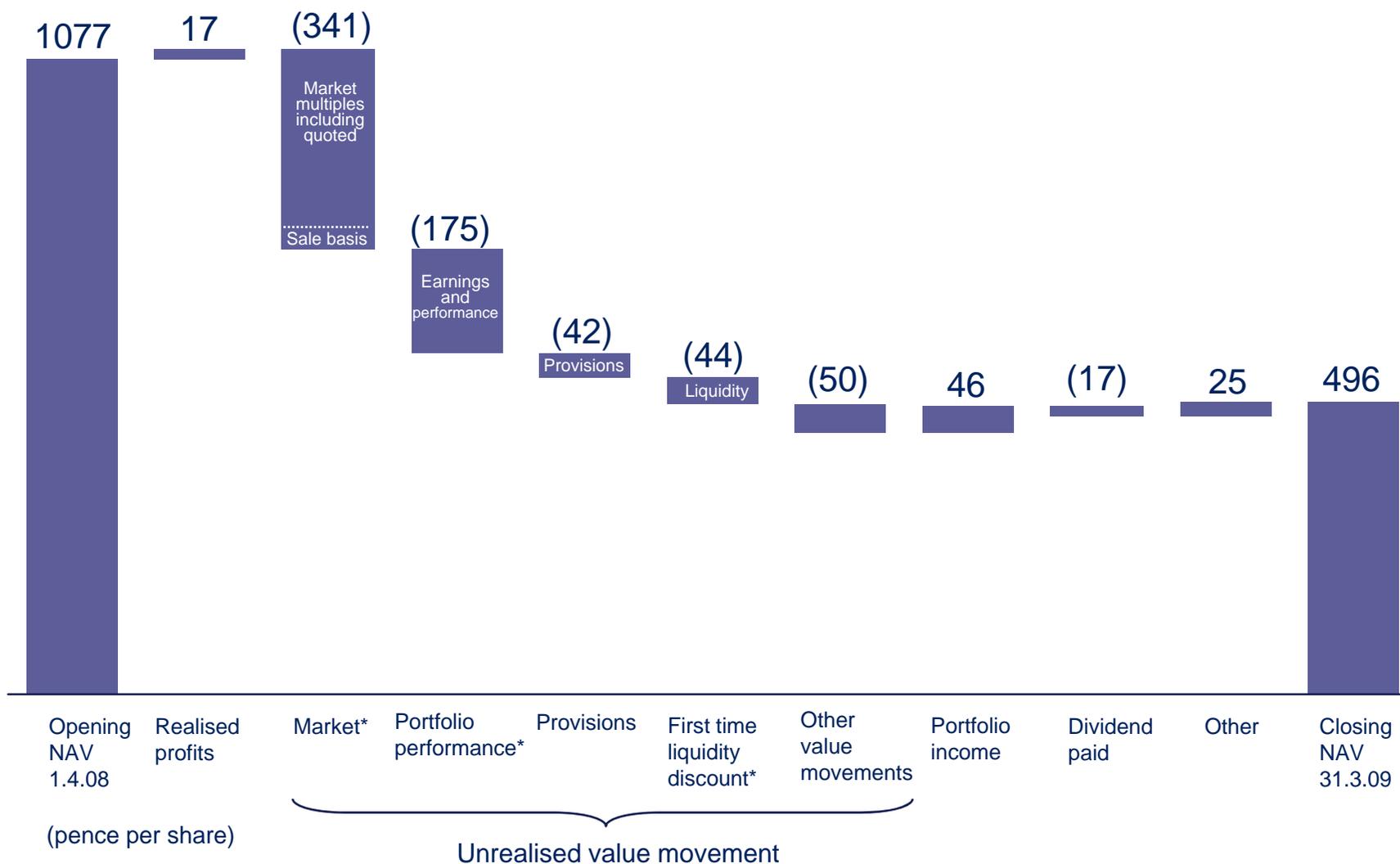
- Julia Wilson appointed Group Finance Director
- Richard Meddings, Group Finance Director of Standard Chartered joined the Board in September 2008
- Robert Swannell has taken over as Chairman of the Audit and Compliance Committee and Senior Independent Director from Oliver Stocken
- Looking to appoint two new non-executive directors



- Response to downturn
 - bonus pool reduced from £56m to £8.6m
 - no salary increases (except for promotions) for senior management
 - consulted on package for new CEO
 - significant downsizing
- Alignment
 - switch from cash to shares
 - ESIP
- Long-term incentives
 - “out of the money” options for CEO
 - carried interest self-correcting (£152m expense to £56m gain)
- Broad review over coming year



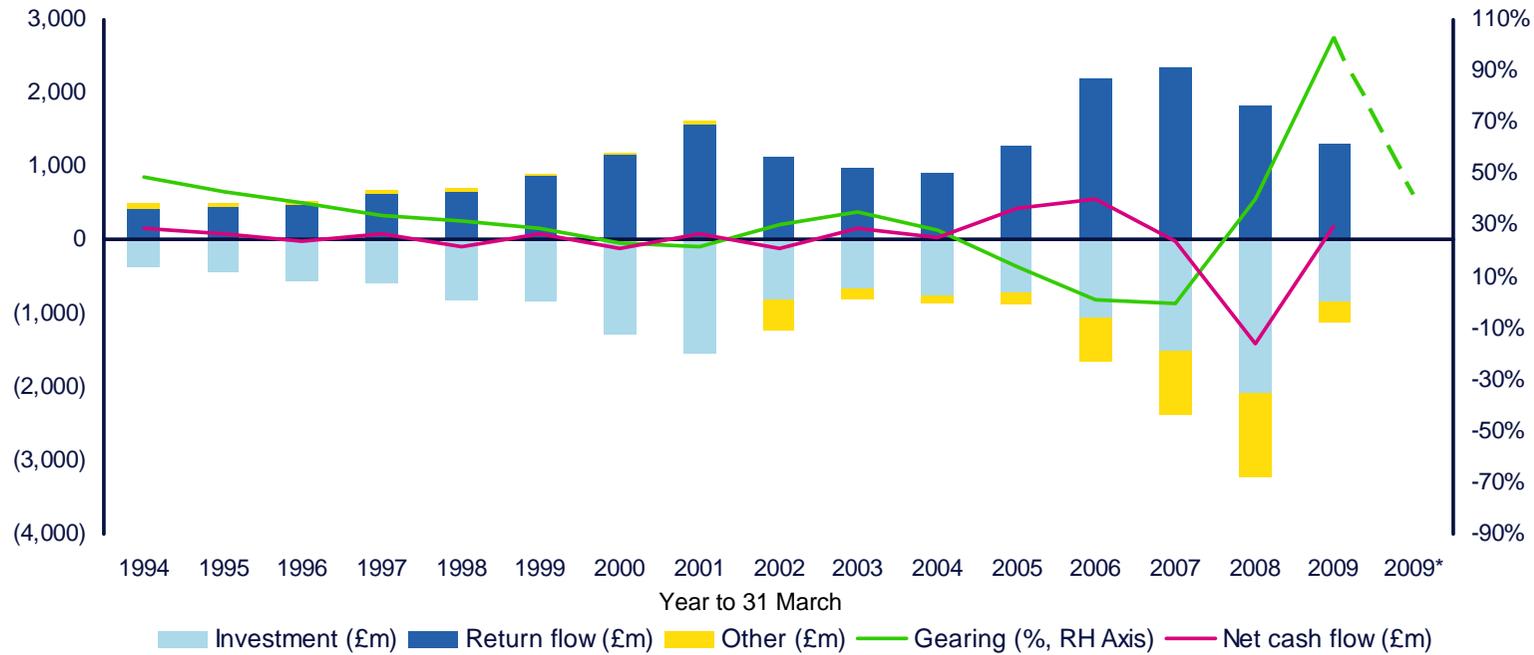
Annual results to 31 March 2009



* These items reflect an analysis of unrealised value movement which groups both the equity and non-equity instruments in 3i's investments within the same category



Strong cash flow generation



* On the basis of the rights issue of £732m (pre expenses) and post QPE transaction

Demonstrated capacity to generate cash through economic cycles and periods of market volatility.



Reduced risk

Strengthens equity base
Ratings security
Reduced leverage



Increased returns potential

More flexibility on realising assets
New investment opportunities

- Equity capital raising of £732m
- 96.6% take up
- Pro forma net debt reduced to £1.1 billion and gearing from 103% to 42%
- Significant new investment by employees alongside shareholders



Group debt position





- Growth Capital
 - companies short of capital
 - limited competition
- Infrastructure
 - economic stimulus in developed world
 - new build in developing world
- Buyouts
 - M&A activity
 - corporates selling non-core assets





“I closed my statement in May 2008 by warning you of great uncertainty as to the impact of the credit crunch, energy prices and raw material costs on economic activity, and as to whether these pressures could be managed by the world's monetary authorities without precipitating recession or a sharp rise in inflation. It is now painfully clear that they could not avoid a deep recession; whether governments will manage to calibrate policy to avoid the subsequent pitfall of inflation remains to be seen. No economic forecasts can currently be relied on, but we believe that the actions being taken to reinforce 3i's financial strengths will give your Company the time to manage its well-diversified portfolio to maximise value for shareholders, and position us to take advantage of well-priced investment opportunities when the upturn comes.”

Risk



Robert Swannell

Chairman of Audit and Compliance Committee
and Senior Independent Director





What risks do we manage?



- External → Political, legal, regulatory, economic, competitor changes
- Strategic → Analysis, design, implementation of business model, investment levels, capital allocation
- Investment → Specific asset investment/divestment decisions, performance management, portfolio concentrations
- Treasury/funding → Uncertainty in market prices and rates, inability to raise adequate funds to meet investment needs or obligations, inappropriate capital structure
- Operational → Processes, people, systems



Risk management framework



Group Risk Management Committee (Chaired by Michael Queen)

- Responsible for overall risk management process
- Monitors changes in external risk environment
- Reviews reports from Investment, Operational and Financial Risk Committees
- Reports to Audit and Compliance Committee

Investment Committee

- Takes or recommends investment decisions on individual opportunities

Operational Risk Committee

- Provides input to the setting of investment policy and guidelines
- Deals with all aspects of operational risk

Financial Risk Committee

- Assesses financial risk including treasury and funding risk
- Quarterly monitoring of portfolio composition

Conflicts Committee

Decides issues on conflicts arising in investment process and other areas

Health and Safety Committee

Reviews Health and Safety arrangements and policy. Monitors implementation and performance

Corporate Responsibility Committee

Recommends socially responsible investment policy. Identifies and promotes awareness of corporate responsibility and developments, opportunities and risks

Regulatory Risk Forum

Provides regulatory input to investment policy. Identifies and promotes awareness of regulatory developments and risks

Corporate responsibility



Kevin Dunn
Company Secretary





- Recent performance
 - CO₂ emissions reduced by 11%
 - employee engagement score up from 84% to 85%
 - positive feedback on dedicated CR website
 - revised investment policies and process implemented
 - new CR portal for staff
- Future focus
 - an elevated risk through environment and expectation
 - portfolio
 - supporting the industry

The screenshot shows the 3i Corporate Responsibility website. At the top, there is a navigation bar with links: Home, About 3i and CR, How we invest, Adding value, Partnership, Accountability, and Transparency. The main heading is "Corporate responsibility". Below this, a paragraph states: "3i is a mid-market private equity business. We focus on buyouts, growth capital, infrastructure and quoted private equity, investing across Europe, Asia and the US." The section "How we invest" features a four-step process: 1 Fund, 2 Invest, 3 Grow, and 4 Realise. Below this, there are four interview snippets: "Adding value" (describing success through strong financial and non-financial performance), "Partnership" (describing a business model based on good relationships), "Accountability" (describing good governance), and "Transparency" (describing extensive information provision). A right-hand sidebar contains links to "CR Reports", "Case studies", "CR Committees", "Performance data", and "CR Policies".

New CR investment policy and procedures



- Single, short policy statement, with a clear goal
- Simple online procedure with reference materials and links for investment teams
- Applies to all of 3i and at all investment stages
- Clear accountability/audit trail
- Rolled out globally
- Positive feedback from staff and LP investors

The screenshot shows a web browser window titled "CR Policy". The page has a blue header with "All sources" and a search icon. The main content area is titled "Corporate Responsibility (CR) Summary of Policy and Procedure" and features three images of modern skyscrapers. On the left side, there are two columns of navigation links: "Sector Guidance Notes" (listing Business Services, Healthcare, Consumer Industries, Media and Entertainment, Oil, Gas, Power and Utilities, Technology, Financial Services, General Industrial, and Other Industries) and "Issue Guidance Notes" (listing Defence and Security, Human Rights, Labour Issues, Environment, Corruption and Business Ethics, Climate Change, Civil Nuclear Power and Produce, Controversial Technologies, Alcohol/Gambling/Tobacco, and Media and Entertainment). Below these are "CR Documents" (CR Issues Checklist and CR Memo). The main content area includes a "Note" about the summary's purpose, a "Purpose" section explaining the policy's goal to help employees understand societal impacts, and a "Process and responsibility" section detailing the CR materiality test and the CR Matrix.



Discussion