

Governance and corporate responsibility



2 June 2010

Introduction



Baroness Hogg
Chairman





Agenda



- Update on company Baroness Hogg
- Audit and risk governance and refreshed key Group performance measures Robert Swannell
- Corporate responsibility, including update on our approach to CR in the portfolio Kevin Dunn/
Patrick Dunne
- Training on board skills for portfolio management Patrick Dunne



Highlights in the year



Improved performance

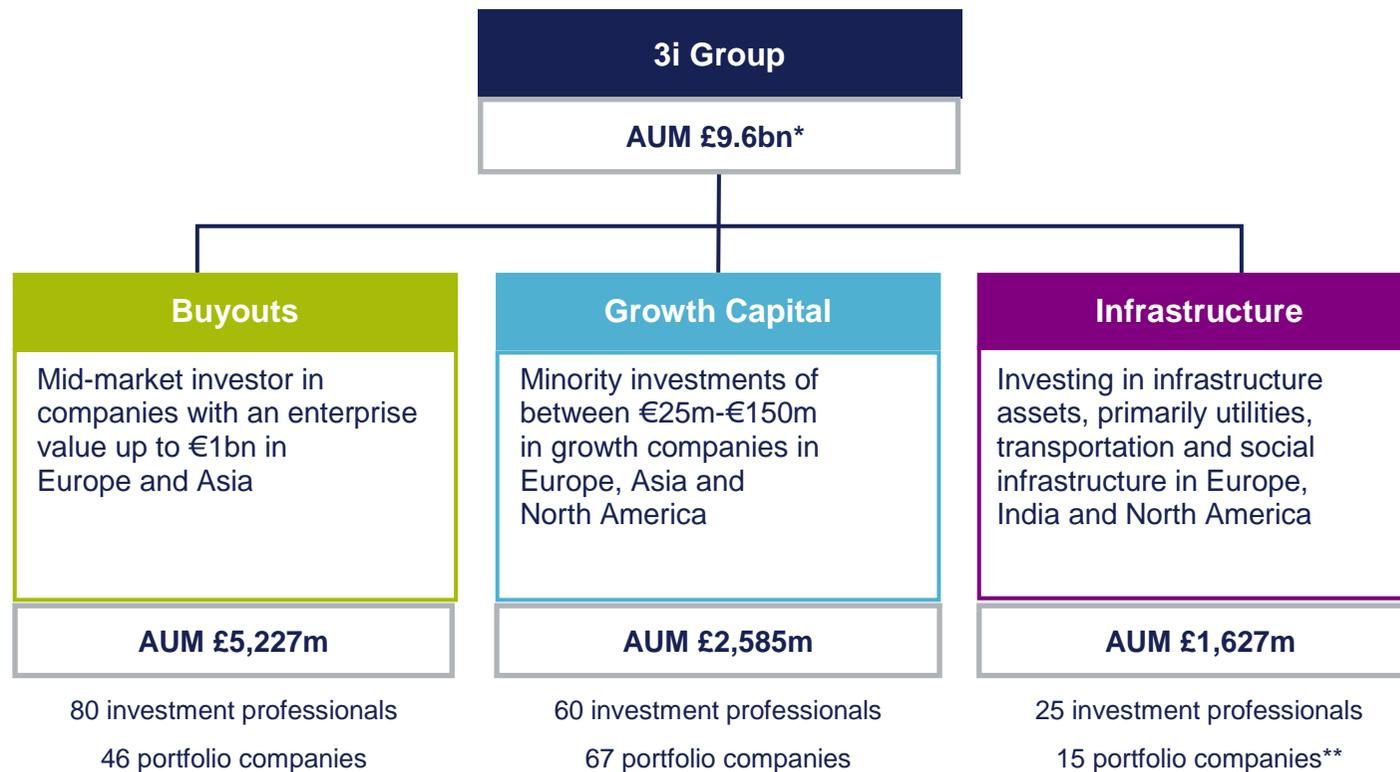
- Total return of £407m, a 16.2% return on opening shareholders' funds
- Realisations of £1,385m
- Investment of £386m
- Operating expenses reduced from £250m to £221m
- Net asset value up 15% to 321p
- Final dividend of 2p per share, 3p for the year

Transformed financial position

- Reduced net debt from £1.9bn to £258m
- Gearing reduced to 8%
- Extended maturity profile of outstanding debt
- Liquidity of £2.7bn

Significant business development

- €1.2bn Growth Capital fund raised
- 3i QPE plc closed
- Venture portfolio sold, non-core portfolio down to 5%
- Business model refreshed



* This includes £168m of non-core assets and £26m invested in other funds.

** Total investments, either directly or indirectly, through 3i Group, 3i Infrastructure and 3i India Infrastructure Fund





Active partnership

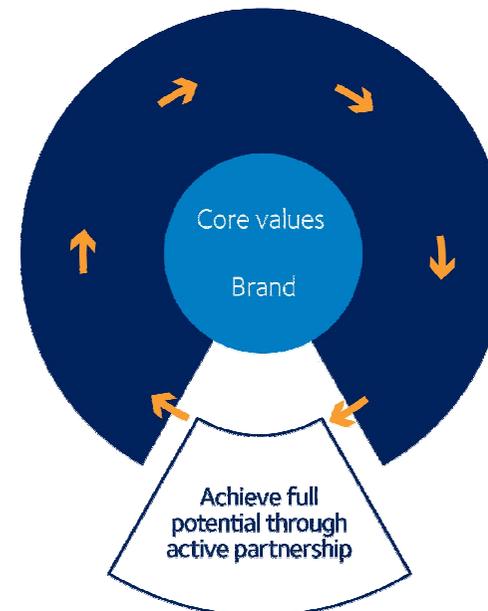
- 90 Active partnership initiatives implemented across the portfolio
- Focus: strategic, commercial, operational, functional performance improvements

Business Leaders Network

- 30 chairmen appointed in past three years

Banking team

- Covenants under review – down from 16 to 7
- Buyout leverage 5.0x
- Growth leverage 2.2x
- Over 80% matures 2013 or later



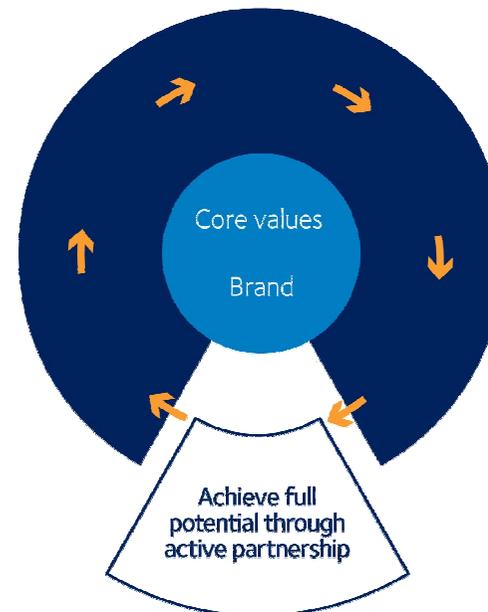


45% increase in EBITDA further €15m identified

- Result of organic growth and acquisitions (12 acquisitions)
- Improved EBITDA margins
- New divisional CEOs, FDs and operations directors appointed

Active partnership

- Full working capital review
- Pricing efficiencies achieved across largest operational divisions
- Cost efficiencies identified
- Continued review of sales force effectiveness and procurement processes



- Invested €207m in Carema in 2005
- Advised, financed and supported integration of Mehilainen in 2006
- Integrated over 24 further acquisitions
- Average 15% (sales) and 31% (EBITDA) growth per year from 2004
- February 2010, 3i sold Ambea for €850m (42% IRR)





- Sir Adrian Montague - Chairman



- John Allan – Chairman of Remuneration Committee



- Alistair Cox – Non-Executive Director



- Annual election

Audit and risk governance and refreshed key Group performance measures



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 decisions, performance management, portfolio concentrations
- Treasury and funding → Changes in market prices and rates, access to capital markets and third-party funds, Group's capital structure
- Operational → Processes, people, systems



Group Risk Management Committee (Chairman: Chief Executive)

Chairman: Chief Executive

- Oversight of the Group's overall risk management processes
- Monitors changes in the Group's external and strategic risk profile
- Reviews reports from each of the Treasury Management, Portfolio Risk and Operational Risk Committees
- Assesses the adequacy of risk mitigation steps put in place in respect of higher level risks
- Reports to the Audit and Compliance Committee

Treasury Management Committee

Chairman: Chief Executive

- Oversees management of funding, gearing, liquidity, interest rate and foreign exchange exposures in relation to policies agreed by the Board

Operational Risk Committee

Chairman: Group Communications Director

- Oversees the key operational risks facing the Group, including changes to the operational risk profile and new and emerging risks

Portfolio Risk Committee

Chairman: Managing Partner/
Chief Investment Officer

- Oversees risks arising from investment portfolio concentration by vintage, geography, sector and size

Key Group financial performance measures - year to 31 March 2010



Gross portfolio return

| | |
|---------------------------|-------|
| Realised profits | £218m |
| Unrealised value movement | £458m |
| Portfolio income | £167m |

Gross portfolio return £843m

Return on opening portfolio value 20.9%

Net portfolio return

| | |
|-------------------------------|--------------|
| Gross portfolio return | £843m |
| Fees receivable | £59m |
| Net carried interest | £(58)m |
| Operating expenses | £(221)m |

Net portfolio return £623m

Return on opening portfolio value 15.5%

Total return

| | |
|-----------------------------|--------------|
| Net portfolio return | £623m |
| Net interest payable | £(112)m |
| Exchange movements | £(35)m |
| Other | £(69)m |

Total return £407m

Return on opening equity 16.2%



 Operating expenses as percentage of assets under management

 Net portfolio return

Corporate responsibility



Kevin Dunn

General Counsel and Company Secretary





Our vision

To be recognised as a leading international investor based on:

- the **value we add** to our portfolio
- the **returns** we deliver to our investors
- our **responsible approach** and style of investing

As a corporate

- Core values
- Group standards and controls
- Responsible employer
- Risk management

3iCR.com



As an investor

- Policies and procedures
 - environmental
 - ethical
 - social
- Two key phases
 - pre-investment
 - portfolio management



“Our responsible approach and style of investing..”



Positive

- Reputation enhancement
- Brand differentiation
- Recruitment and motivation of staff
- Can prompt innovation (eg Tesco, 3i backed Radius)
- Facilitates exits/IPOs
- Helps in discussions with regulators and authorities

Defensive

- Market expectations
- Enhanced due diligence
- Cost savings (eg energy)
- Portfolio companies with CR issues potentially tougher to sell/IPO

How we invest

3i has developed a style of responsible investing over 60+ years which is based on partnership. Find out more about how this works in practice.

1 Fund **2 Invest** **3 Grow** **4 Realise**

Adding value
Our success depends upon our portfolio companies delivering both strong financial and non-financial performance. Our track record of helping them to achieve this is a key differentiator.
[Watch the interview](#)

Partnership
Our business model is underpinned by good relationships and built with a wide range of people and organisations across the world.
[Watch the interview](#)

CR Reports
Read our CR Reports
[Find out more](#)

Case studies
Look at some examples of our approach in action.
[Find out more](#)

CR Commitment
See who is on our CR Committee and find out what they do.
[Find out more](#)

Performance data
Look at the key facts and figures in one place.
[Find out more](#)

CR Principles
Read our policies
[Find out more](#)

Accountability
Good governance is more than just the right policies and processes; interests must be aligned and accountability needs to be clear.
[Watch the interview](#)

Transparency
Providing extensive information in an accessible way to help people understand 3i and our industry brings real business benefits.
[Watch the interview](#)



CR Policy Homepage

CR Policy
CR Matrix

Sector Guidance Notes

Business Services
Healthcare
Consumer Industries
Media and Entertainment
Oil, Gas, Power and Utilities
Technology
Financial Services
General Industrial
Other Industries (i.e. unclassified)

Issue Guidance Notes

Defence and Security
Human Rights
Labour Issues
Environment
Corruption and Business Ethics
Climate Change
Civil Nuclear Power and Produce
Controversial Technologies
Alcohol/Gambling/Tobacco
Media and Entertainment

CR Documents

CR Issues Checklist
CR Memo

Corporate Responsibility (CR) Summary of Policy and Procedure



Note: This is a summary only, providing quick links to all the policy materials and a short description of what they contain. See the [3i CR Policy](#) document on the Portal for the text of the policy itself, including an explanation of deal team procedures and Group-level arrangements.

↓ Purpose

The purpose of 3i's CR policy is to help employees to demonstrate that they understand the impacts that investee companies have on society and the environment, and to manage the value opportunities and risks involved, including any relevant ethical issues. Irrespective of sector, business line or geography, it is vital to 3i's reputation that all material CR matters are identified and regularly considered during the life of an investment through to exit.

↓ Process and responsibility

The [3i CR Policy](#) document on the 3i Portal explains the Policy, the procedures to be followed by deal teams, and Group-level governance and other arrangements. It highlights the need, for each individual deal, for a named [Deal Sponsor](#) to take lead responsibility in ensuring that CR issues are fully addressed by the relevant deal team throughout the whole investment/divestment process, and in providing accountability and assurance to senior management at all stages.

The Policy document sets a [CR materiality test](#) for all investments. It requires investment staff to consult a [CR Matrix](#), based on "traffic-light" indicators, which links into specific Sector and Issue Guidance Notes as follows:



- Test 3i's knowledge of the CR position/approach in the current portfolio
- Engagement with portfolio companies - understanding their perspective on CR
- Highlight CR opportunities and risks
- Provide evidence where good CR practices deliver business benefits

Important to note

- Focused on larger assets, across geographies, business lines and sectors
- Not an audit of company CR performance, more a sense check



Corporate responsibility

Environmental

Environment

- pollution, waste, natural resource depletion, ecosystem conservation, biodiversity

Climate change

- carbon emissions, physical impacts

Social

Labour issues

- health and safety, workplace practices

Human rights

- freedom of association, forced labour, child labour, human security

Governance

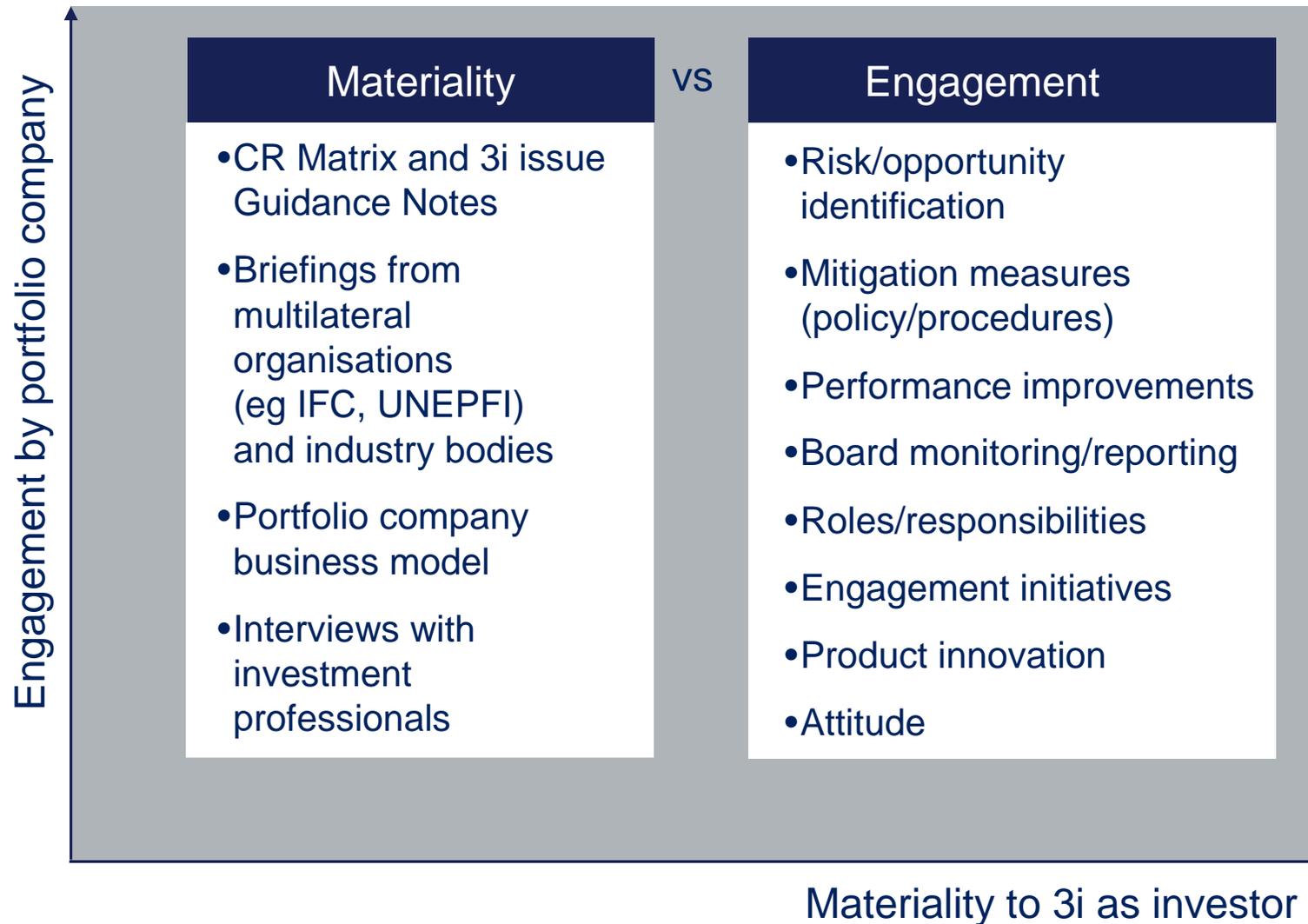
Business ethics

- integrity, bribery and corruption, fraud, product/service responsibility

Transparency

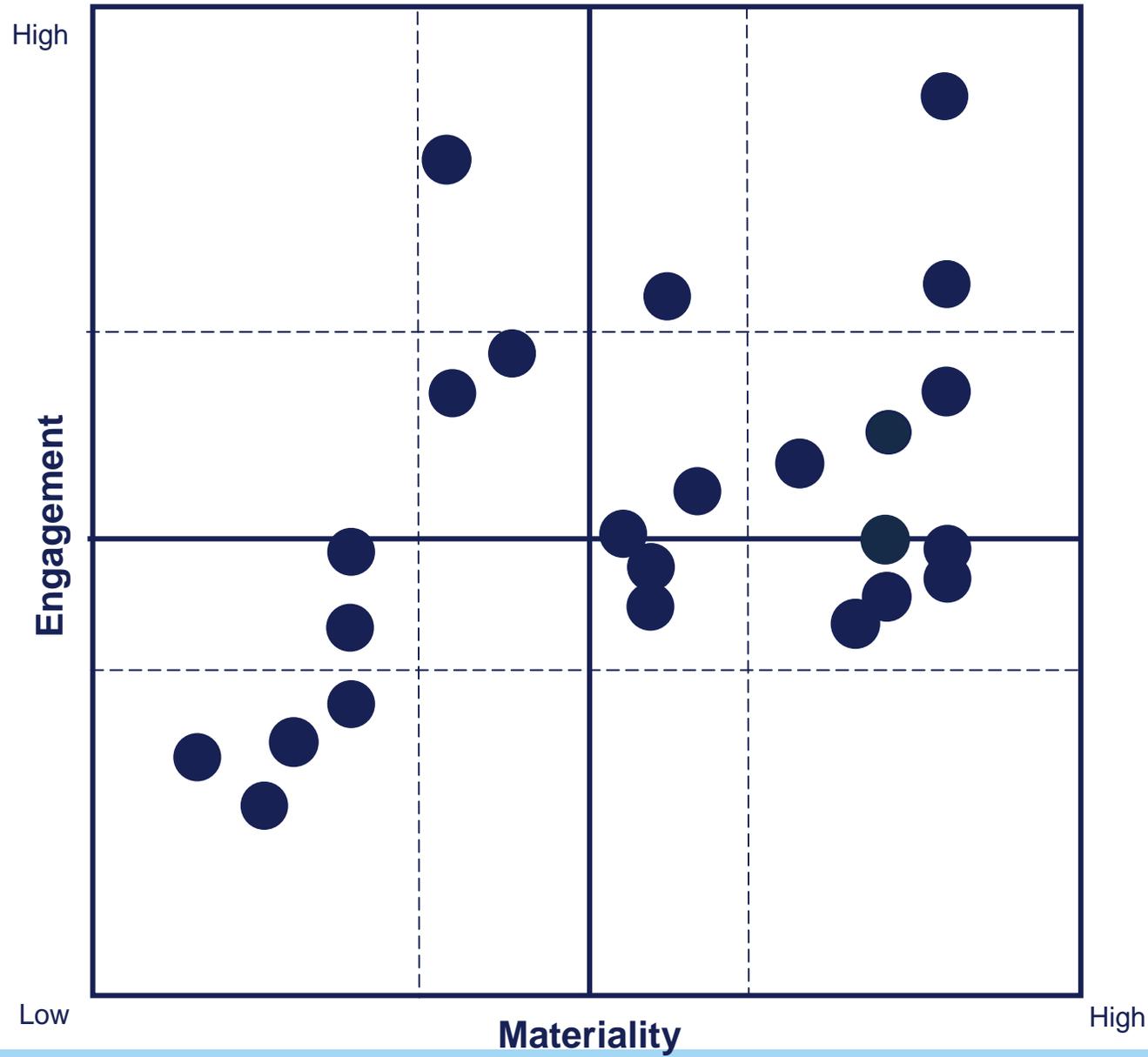
- requirements by regulators, customers and voluntary standards

- Aligned with 3i issue Guidance Notes





Current portfolio



Board skills training for portfolio management



Patrick Dunne

Group Communications Director
Chairman of Operational Risk Committee





Why interact with the board?



- We're trying to change outcomes for 3i
- Influence strategy
- Control and manage exit – improved opportunities for realisation
- Assess the board, including the chairman
- Detect and act on underperformance
- Route to deliver 3i added value

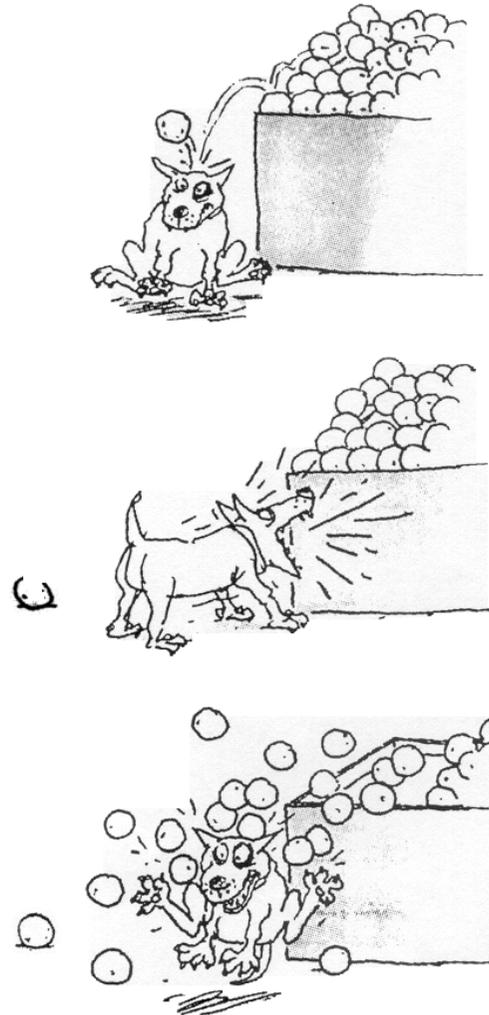


“Being good at being on a board or interacting with a board”



- Increases knowledge, control and influence
- Creates value and reduces risk
- Is market practice
- Is expected of us by shareholders, fund investors and management
- Demonstrates 3i as a clear value added investor
- Helps to build both 3i and personal reputations

Sometimes your natural instincts aren't helpful





Agenda – this morning



- 08.30 Introduction
- 08.45 Your issues
- 09.00 3i approach to boards
- 09.45 Feedback from those who work closely with us
- 10.15 Coffee
- 10.30 Legal aspects
- 12.00 Board composition and operation
- 12.30 Lunch



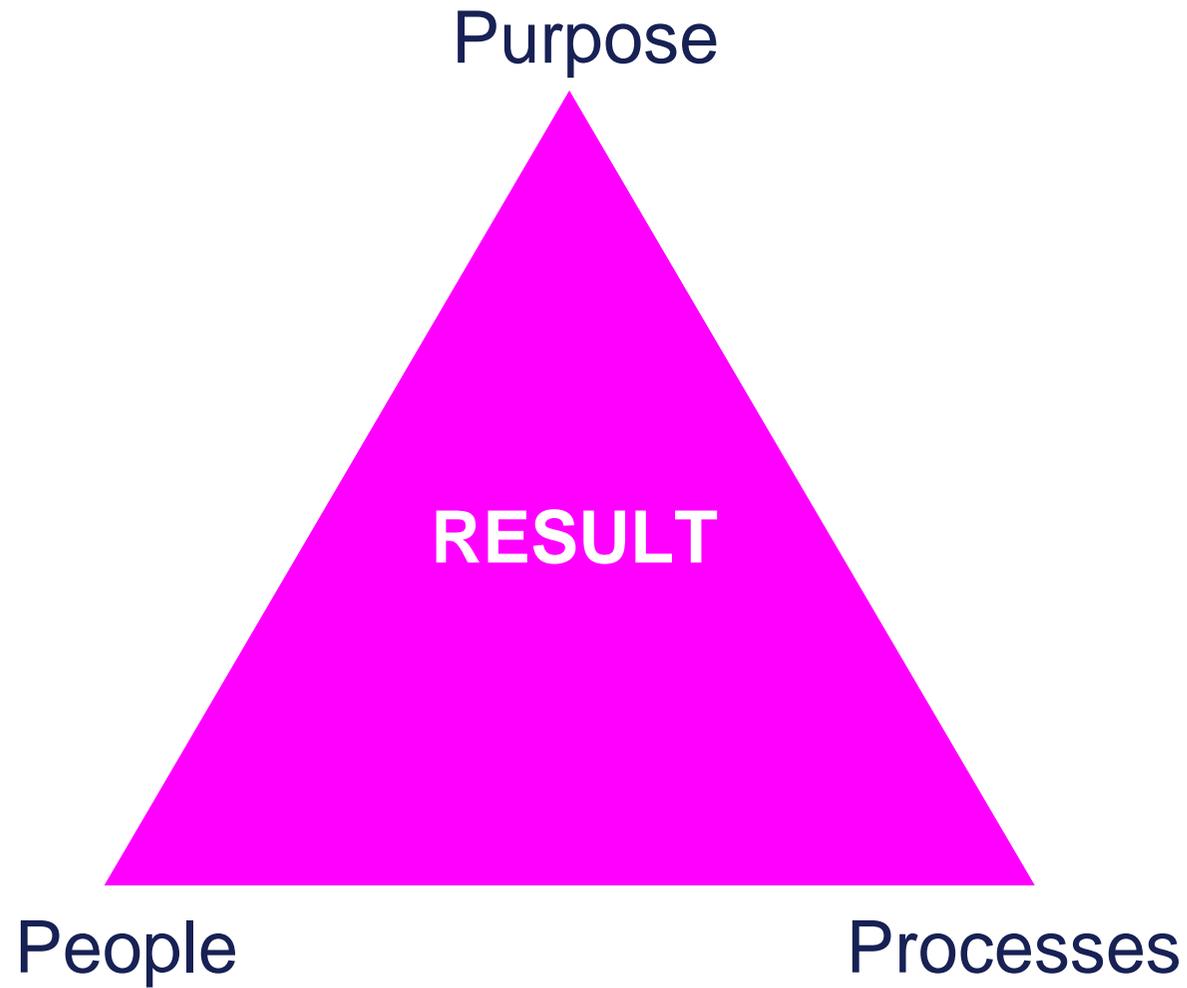
Agenda – this afternoon



- 13.30 Board composition and operation
- 14.00 Case studies
- 15.00 Tea
- 15.30 Case study feedback and role play
- 16.15 Decision making
- 16.45 Working groups - individual issues
- 17.30 Close
- 19.00 Drinks and dinner with Hamdi Conger



- 08.00 Feedback on working sessions
- 08.45 Business Leaders Network
- 09.15 Characteristics of effective directors and effective boards
- 10.00 Coffee break
- 10.20 Characteristics of effective directors and effective boards
- 12.00 Lunch
- 13.00 Corporate responsibility
- 13.30 Removing directors
- 14.00 Outstanding issues
- 14.30 Summing up
- 15.00 Close

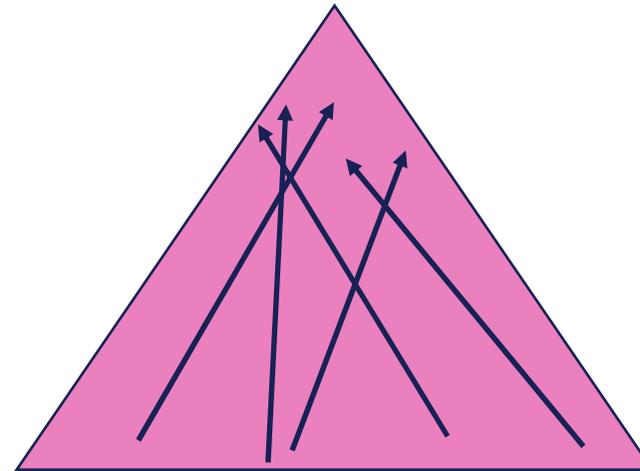
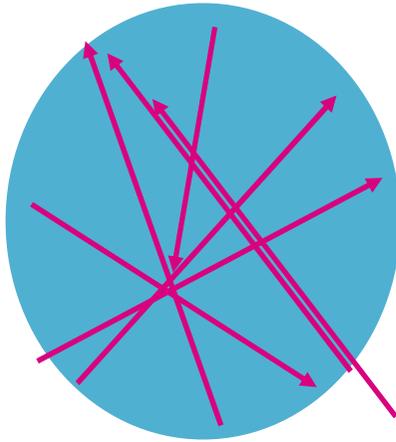




Board alignment



Low  High





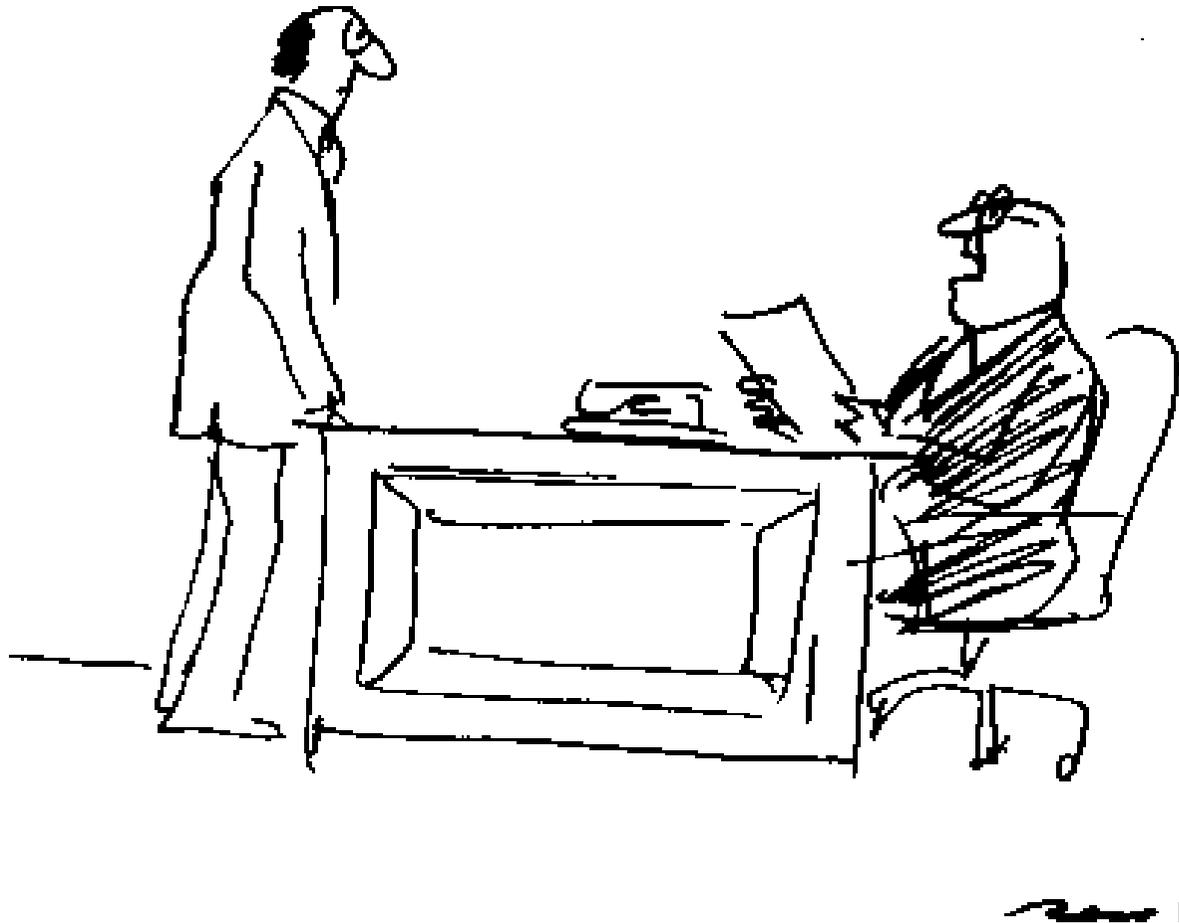
- Right strategy
- Right resources
- Keep out of jail!



Clear roles - the Buyouts model



| 3i | Chairman | Executive team |
|--|--|--|
| Sets/agrees investment strategy | Implements investment strategy/exit | Develop business plan |
| Establishes legal ground rules | | Deliver business plan |
| Focuses on: <ul style="list-style-type: none">– Value– Chairman performance– Operational performance | Judges the executive team on operational/financial performance | Maintain financial and operational integrity |
| Puts in place: <ul style="list-style-type: none">– Incentives for delivery– Monitoring/review mechanisms– Initiates change of Chairman and use of legals | Responsible for management change | |



“The addition is correct Wilkins, but where is the money?”

Discussion

