29 June 2012

3i Group plc

New Chief Executive Simon Borrows announces future strategy for 3i and significant cost reduction programme

KEY HIGHLIGHTS

Clear strategy and vision

- Create leaner organisation with cost base more closely aligned with the Group's income and investment strategy.
- Focus on intensively managing the existing private equity portfolio and seeking realisations where conditions are right to maximise proceeds.
- Objective to generate more third-party income over time through the raising of further third-party funds.
- Overall, improve the business's performance and maximise value for the Group, its shareholders and its fund investors.
- Vision to be a leading international investor with three strong investment platforms and to deliver top quartile cash investment returns over the longer term:
    - Focused mid-market Private Equity business
    - Class-leading Infrastructure investor
    - Growing Debt Management business.

Significant organisational change and cost reduction programme

- Greater control, consistency and business focus through removal of organisational complexity and re-shaping of the international network.
- Improve consistency and discipline of investment processes and asset management approach, including implementing an annual vintage control for 3i balance sheet investments.
- Focus new private equity investment primarily in core Northern European markets and Brazil. Suspend new private equity investment in Spain and Asia.
- Immediate implementation of significant cost reduction programme to create a leaner organisation and reduce annual operating costs by over £40 million:
    - Headcount reduction of over 160 employees, representing over a third of the Group's headcount compared to 31 March 2012, as well as a reduction of indirect and other Group support costs
    - Closure of offices in Barcelona, Birmingham, Copenhagen, Hong Kong, Milan and Shanghai, reducing total number of offices from 19 to 13, and a significant reduction of staff in a further 6 offices
    - Targeted annualised run-rate operating cost savings of £40 million to be achieved by 31 March 2013, increasing to £45 million by 31 March 2014.
- Materially reduce gross debt and funding costs. Gross debt already reduced below previously stated target to be less than £1.3 billion by September 2012.
- Strengthened the Group's distribution policy in order to give shareholders a direct share in the success of the Group's realisation activities.

Commenting, Simon Borrows, 3i's Chief Executive said:

“I have known 3i for a long time and I strongly believe that it has some real competitive strengths that we can build on to deliver long-term value for shareholders and fund investors. At the same time, we face clear challenges. The business today is too decentralised and lacks focus and consistency. The operating cost base has lagged changes to the investment business and is currently not aligned with the Group’s income. Following a comprehensive review of the business, I am announcing today the future strategy for 3i and my priorities to get 3i back on track. 3i will be a fitter and more focused organisation capable of delivering top quartile cash investment returns.

“We will re-focus the Group’s resources and capital in the regions and sectors where we have demonstrable competitive advantage and see the greatest opportunity. We will ensure a highly selective and consistent approach to new investments. Critically, our focus will be on improving the consistency and discipline of our asset management approach to drive value from our existing portfolio.

“As part of the new strategy, from today, I will be implementing a significant cost reduction programme to align 3i’s cost base with its income and investment strategy. This will reduce our annual operating costs by over £40 million. Financial year 2013 will be a transitional year of restructuring as we re-focus our international network and materially reduce operating and funding costs.

“However, it is not just about cost reduction. It is also about removing complexity from the organisational structure and changing the culture of the business to be more dynamic and focused on lower volume, higher value-driven business. A leaner organisation will remove bureaucracy and enable faster and more consistent decision making.

“While the macro-economic environment remains challenging, I have great confidence in 3i’s people and the intrinsic strengths of the business. We will put our house in order, focus on increasing the flow of realisations at premiums to book value, and in time, return to raising third party funds for our Private Equity business.”

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Future strategy and vision for 3i and significant cost reduction programme

Background and strategic review
On 17 May 2012, 3i Group plc announced the appointment of Simon Borrows as its new Chief Executive with the strategic mandate to pursue a clear and concrete set of measures to maximise shareholder value.

On the same day, at the presentation of 3i’s annual results to 31 March 2012, Simon Borrows set out the key areas of immediate focus for his strategic review of the business:

- Determining the best shape and investment strategy for the business going forward

- Improving the consistency and discipline of the Group's asset management approach and ensuring that the Group's investment capabilities are of a high quality
- Ensuring that the operating cost base and liquidity costs are consistent with the Group's investment and asset management strategy and with the prudent maintenance of the balance sheet.

Future strategy and vision for 3i
3i is an international investor investing in private equity, infrastructure and debt management. It has a strong brand which is recognised internationally and has a strong long-term track record in mid-market private equity, a class-leading position in infrastructure, and its most recent strategic investment in debt management significantly strengthened the operating cash flow of the Group in the year ended 31 March 2012.

While the Infrastructure and Debt Management businesses continue to perform well, the overall performance of the Private Equity assets has been disappointing, despite the stronger performance of the financial year 2011 and 2012 investments under the new management of the Private Equity business.

Today, following the strategic review of the Group under the leadership of Simon Borrows, 3i is announcing the key components of its future strategy and vision, including the immediate steps it is taking to create a fitter and more focused 3i.

3i's vision is to be a leading international investor in private equity, infrastructure and debt management, and to deliver top quartile cash investment returns over the longer term. Over time, 3i aims to generate more third party income through the raising of further third party funds.

To achieve this, the immediate priorities for the business are:

- Greater control, consistency and business focus through the removal of organisational complexity and the re-shaping of the international network. This will focus the Group's resources and capital in the regions and sectors where we have demonstrable competitive advantage and see the greatest opportunity.
- Focus its Private Equity business on mid-market investing in sectors where it has real expertise and in its core Northern European markets (Benelux, France, Germany, Nordics and the UK), as well as in Brazil, where in 2011 it entered the market with a strong and established team. In addition, the Private Equity business will be supported by the strong footprint and capabilities in Asia and the US. 3i has suspended new private equity investment in Spain and Asia and is focusing on intensively managing the existing portfolio of investments to preserve, enhance and realise value.
- Re-balance and enhance the financial and operational capabilities of the Private Equity investment teams. The focus of the investment teams will be on intensively managing the existing portfolio, including supporting and investing further in those businesses, while also seeking realisations where conditions are right to maximise proceeds for 3i, its shareholders and its fund investors.
- Improve the consistency and discipline of 3i's investment processes and asset management approach. This will ensure a highly selective and consistent approach to new investments as well as earlier identification of potential issues with existing portfolio companies. A series of improvement initiatives have already been launched covering all aspects of 3i's investment and asset management processes, including implementing an annual vintage control for 3i balance sheet investments. These improvements will be substantially implemented by November 2012.

- Create a leaner organisation with a cost base more closely aligned with its income and investment strategy. This will be achieved through the immediate implementation of a significant cost reduction programme.
- Change the culture of the business to be more dynamic and focused on lower volume, higher value-driven business. A leaner organisation will also enable faster and more consistent decision making across the Group.
- Materially reduce gross debt and the Group's overall funding costs. Since 31 March 2012, gross debt has been reduced to £1,252 million as at 28 June 2012 from £1,623 million. This meets 3i's previously stated target of reducing gross debt to less than £1.3 billion by September 2012, and demonstrates substantial progress towards meeting the target of gross debt being less than £1 billion by June 2013.
- Strengthened the Group's distribution policy in order to give shareholders a direct share in the success of the Group's realisation activities. 3i has already set out the basis of this as being an aggregate distribution to shareholders, including the annual dividend, of at least 15% and up to 20% of gross cash realisation proceeds, provided that gearing remains less than 20% and provided that 3i remains on track to reduce gross debt to less than £1 billion by June 2013. Distributions beyond the annual dividend will be through special dividends, the use of the standing share buy-back authority or by way of other capital distribution methods.
- Fundamentally change our capital allocation approach so that over time we use less capital to pay operating costs, funding costs and debt repayments, and instead focus on shareholder distributions and re-investment in our core investment businesses.

The clear objective of these steps is to improve the business's performance and maximise value for the Group, its shareholders and its fund investors.

Cost reduction programme

Following a comprehensive review of the Group's operating cost base, 3i is announcing a significant cost reduction programme. This programme, which is being implemented immediately, will ensure that the Group's cost base becomes more closely aligned with its income and investment strategy. The key elements are:

- Headcount reduction of over 160 employees by 31 March 2013, representing over a third of the Group's headcount of 435 employees at 31 March 2012. This headcount reduction comprises approximately one third investment professionals (the majority of which are in regions outside of Northern Europe) and two thirds support staff. It is expected that more than half of this headcount reduction will have taken place by 30 September 2012.
- Closure of offices in Barcelona, Birmingham, Copenhagen, Hong Kong, Milan and Shanghai. This will reduce the total number of offices from 19 to 13, creating a more focused international network covering 11 countries across Europe, Asia and the Americas. In addition, 3i will significantly reduce overall staff in a further 6 offices, including in Beijing, Madrid, Mumbai, New York and Singapore where the focus will be on retaining operational focus and capability to manage the existing portfolio of investments as well as facilitate the international growth and development of existing investments.
- Targeted annualised run-rate operating cost savings of £40 million to be achieved by 31 March 2013, increasing to £45 million by 31 March 2014.
- These cost savings are against a baseline of estimated annualised run-rate operating costs of £185 million at 31 March 2012. Actual reported operating costs for the year ended 31 March 2012 were £180 million.
- Up to £30 million of total estimated one-off implementation costs (including the costs associated with redundancies) to be incurred during the financial years 2013 and 2014, although it is expected that these costs will be substantially incurred by 31 March 2013.

Given the timing effects and the implementation costs incurred during the financial period, it is expected that actual reported operating costs in the financial year 2013 will be at a similar level to financial year 2012. However, the actual reported operating costs in the financial year 2014 are expected to largely reflect the run-rate level at that time.

The operating cost figures above exclude the impact of the acquisition by 3iDM of the European CLO management contracts, which was announced in May 2012 and which is expected to complete in the coming months.

Investor meeting
A presentation for analysts and investors will be held at 13:15 today at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. The presentation will be audio cast live on www.3iGroup.com. Registration for the audio cast will be available from 12:30 today.

The principal purpose of that meeting is for the Company to present its new strategy as it relates to its investment strategy, asset management, operating costs and balance sheet. The presentation will not differ materially from what has been set out in the above announcement.

3i last commented on current trading at its full year results on 17 May 2012. During today's presentation no new trading information will be provided.

The Group will provide its next update on current trading in an interim management statement scheduled to be released on 27 July 2012.

Notes to editors

About 3i Group plc
3i is an international investor focused on private equity, infrastructure and debt management, with operations in Europe, Asia and the Americas. As at 31 March 2012, 3i had total assets under management of £10.5 billion, including £6.3 billion advised or managed on behalf of third parties.

About Simon Borrows
Simon Borrows is Chief Executive of 3i Group plc. Prior to being appointed Chief Executive, he was Chief Investment Officer and a member of the Board of 3i Group plc since joining the Company in October 2011. Prior to joining, he was Chairman of Greenhill & Co. International LLP, having previously been Co-Chief Executive Officer of Greenhill & Co., Inc., a leading independent investment bank listed on the New York Stock Exchange. Before founding the European operations of Greenhill & Co. in 1998, he was the Managing Director of Baring Brothers International Limited. He is also a non-executive director of The British Land Company plc and of Inchcape plc.

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