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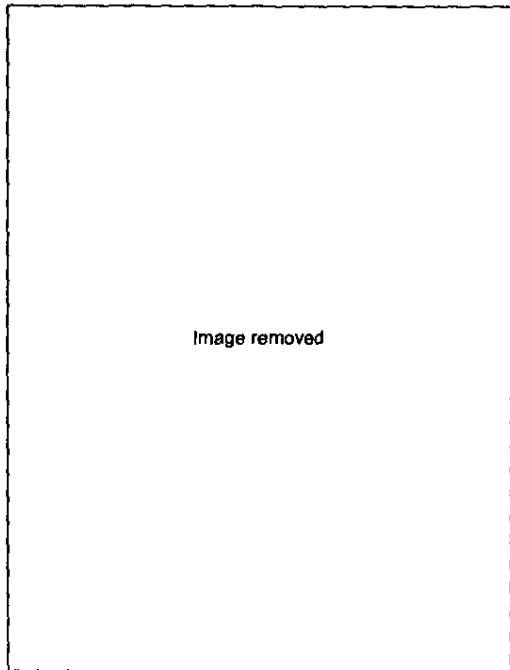
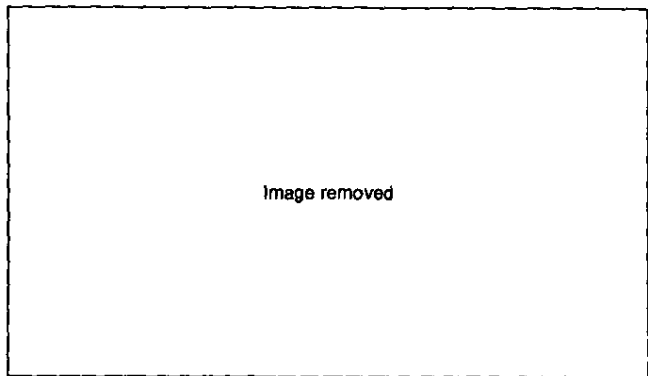
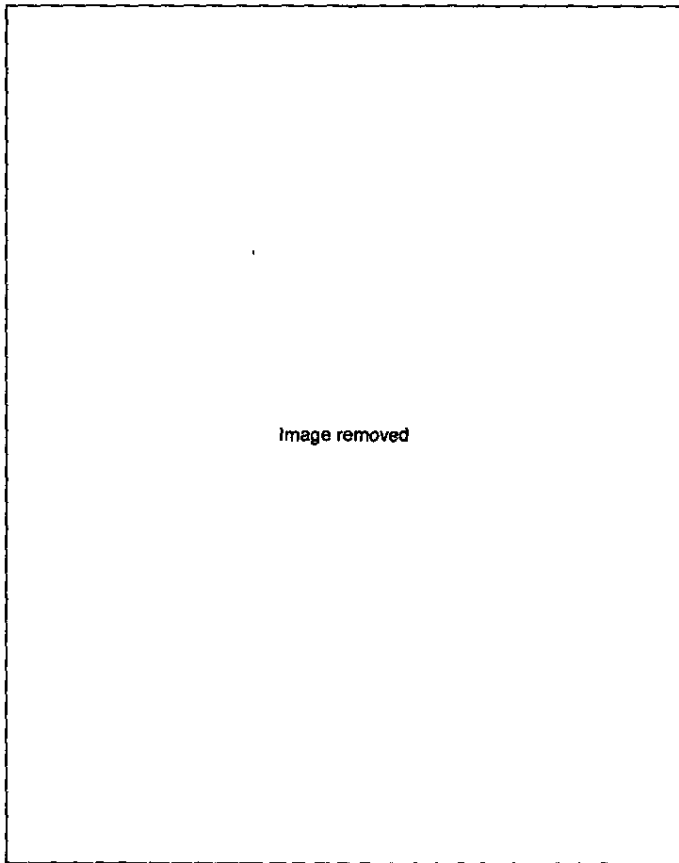
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COMPANIES HOUSE

3i Group plc

Annual report and accounts 2014



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The financial data presented in the Overview and Strategic report relates to the Investment basis financial statements. The Investment basis is described on page 40 and the differences from and the reconciliation to the IFRS Audited financial statements are detailed on pages 54 to 57

For more information on 3i's business, its portfolio and the latest news please visit www.3i.com

To be kept up-to-date with 3i's latest financial news and press releases sign up for alerts at www.3i.com/investor-relations/financial-news/email-alerts

Disclaimer

This Annual report has been prepared solely to provide information to shareholders. It should not be relied on by any other party or for any other purpose.

This Annual report may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i"). These are not guarantees of future performance and will not be updated. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Performance highlights

A summary of our performance for the year to 31 March 2014

The financial data presented in the Overview and Strategic report relates to the Investment basis financial statements. The investment basis is described on page 40 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 54 to 57.

Strong total shareholder return

Our share price increased from 316p on 28 March 2013 to 398p on 31 March 2014. After adjusting for dividends paid in the year this represents a total shareholder return in the year of 30%.

We committed to pay a regular base dividend of 8.1p per share in respect of each financial year. A good level of realisations in the year has funded an additional dividend of 11.9p per share, so that the total proposed dividend for the year to 31 March 2014 is 20p per share. We paid one-third of this, 6.7p per share, in January 2014 as an interim dividend and, subject to shareholder approval, will pay the remaining balance of 13.3p per share as a final dividend in July 2014.

30%
total
shareholder
return

20p
proposed total
dividend
per share

Good flow of Private Equity realisations

We delivered total cash proceeds of £669m, equating to realised profits over opening valuation of £201m, and representing a 43% uplift over opening valuation and a 1.8x multiple over original cost.

43%
uplift to opening valuation

Building investment momentum

Our Private Equity business completed three new mid-market investments and one substantial further investment. Cash investment was £276m and, including third-party funds, totalled £372m, being double the level of last year (2013: £182m). Debt Management investment also increased to £61m (2013: £23m).

£372m
of Private Equity cash investment

Substantially outperformed cost savings target

We achieved £70m of cumulative run-rate operating cost reductions at 31 March 2014, ahead of targeted savings of £60m and representing a 38% reduction from the run-rate cost base of £185m at 31 March 2012.

£70m
of operating cost savings

Solid and simplified balance sheet

We reduced gross debt to £857m (2013: £1,081m). Gross interest costs reduced to £54m (2013: £101m), ahead of target of £60m.

£47m
reduction in gross interest costs

Annual cash income exceeds operating costs

We exceeded our target to cover operating costs with cash fees and portfolio income in FY2014. Achieved an annual operating cash profit of £5m.

£5m
annual operating cash profit

What we do

3i is a leading international investment manager focused on mid-market Private Equity, Infrastructure and Debt Management
Our core markets are northern Europe and North America
We employ 266 people, of whom 119 are investment professionals

Key facts and figures

Market focus

Private Equity

81 portfolio companies
£2.9bn 3i portfolio value
£4.1bn total AUM

- We invest in mid-market companies with enterprise values between £100m–£500m
- We focus on businesses with international growth potential in the business services, consumer healthcare and industrial sectors in northern Europe and North America where we have a long track record of strong returns
- We use our sector expertise, local presence and network of industry experts and management teams many of whom we have worked with successfully in the past to maximise the value of our investments

Infrastructure

128 underlying investments
£0.5bn 3i portfolio value
£2.3bn total AUM

- The funds we manage and advise invest in companies and projects with strong market positions that deliver stable underlying performance. We focus on asset-intensive businesses providing essential services over the long term often on a regulated basis or with significant contracted revenues
- Our market focus is on core economic infrastructure in Europe, principally in the utilities and transportation sectors, as well as on the primary Public Private Partnership (PPP) and renewable energy project markets, where we have a strong track record

Debt Management

28 funds
£0.1bn 3i portfolio value
£6.5bn total AUM

- We invest primarily in senior secured loans, specialising in the management of collateralised loan obligations (CLOs) We also offer alternative risk/return products, focused on senior loan investing, to a number of investors
- We have built an international platform, with key capabilities in Europe and North America which are the markets in which we have focused our product offering

All figures as at 31 March 2014

➤ See case studies, p29, p34, p39

Objectives

- Our objective is to generate a 2x return on invested capital, usually over a 3–5 year period. We generate that return principally through capital gains on exit or refinancings, but also, in some cases, through dividends or interest income from portfolio companies.
 - We are disciplined about how we invest. We use our network of local offices across northern Europe and North America, combined with our strategic sub-sector focus, to seek attractive opportunities with international growth potential, typically outside highly competitive processes.
 - We invest with management, fund investors and co-investors, typically taking a controlling position, or one with sufficient influence to grow the portfolio company in line with our investment plan.
-
- We manage a number of products with different risk/return characteristics. We aim to generate stable returns through a combination of income yield (from dividends and interest) and capital growth.
 - In an increasingly competitive market, we use our extensive network of relationships in the infrastructure market to originate new investment opportunities.
-
- We offer products across a range of risk/return criteria, and our objective is to generate net returns between 6–12% per annum, depending on the structure of the product.
 - We have a history of outperformance against market benchmarks, with default and loss rates below these benchmarks.
 - Our objective is to grow third-party assets under management ("AUM") in senior secured loans and in other debt product classes. Our strong relationships with private equity sponsors and banks provide an advantage in the sourcing and trading of investments.

Assets and portfolio

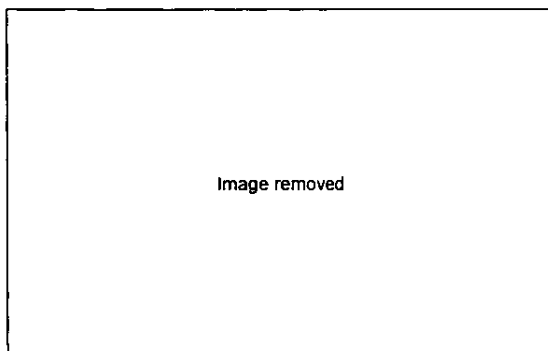
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Delivering strong results

Chairman's statement



Sir Adrian Montague
Chairman

"A strong performance as we continue implementing our strategic plan"

I am pleased to report a strong performance for the financial year to 31 March 2014. Simon Borrowes and his executive team have made excellent headway in accomplishing many of the objectives in the three-year strategic plan we adopted in June 2012 and have achieved both strong levels of realisations and continued progress in matching the level of our operating costs with our annual cash income.

Dividend

In May 2012, the Board announced a strengthened distribution policy designed to give shareholders a direct share in the success of the Group's realisations by adopting a policy of returning to shareholders a proportion of gross cash proceeds subject to certain conditions.

These conditions have been satisfied, and in November 2013 we announced that we would be initiating additional shareholder distributions above the base dividend.

Given the strong level of realisations, the emphasis on selective investment in uncertain market conditions and our healthy balance sheet position, we are proposing a total dividend for the financial year to 31 March 2014 of 20.0 pence per share, a yield of 6% on the 316 pence per share price at 28 March 2013. We paid one third of this, 6.7 pence per share, in January 2014 as an interim dividend. Subject to shareholder approval, we will pay the balance of 13.3 pence per share as a final dividend in July 2014.

Board changes

During the year, Willem Mesdag retired from the Board with effect from 30 November 2013. Willem had served as a non-executive Director on our Board since 2007, including as Chair of the Valuations Committee, and I would like to take this opportunity to thank him for his valuable advice and counsel over that period. David Hutchison OBE, who is Chief Executive of Social Finance Ltd, joined our Board as a non-executive Director with effect from 11 November 2013. David has succeeded Willem as Chair of the Valuations Committee.

Outlook

We remain cautious overall on the economic outlook. While there appear to be some positive indicators in certain parts of the European economy, not least strong equity markets, overall levels of GDP growth remain low and we believe that any broader based recovery could take time, and the unwinding of recent monetary policy will not be without risk.

Despite this uncertain macroeconomic environment and relatively subdued levels of M&A activity in our core markets, our Private Equity business completed three new mid-market investments and one significant further investment. Basic-Fit GIF, JMJ Associates and Scandlines, contributing to total cash investment of £372 million, including third-party funds. Within Infrastructure, the Group completed its acquisition of Barclays Infrastructure Funds Management business, adding over £700 million of assets under management and an experienced investment team based in London and Paris. We have also capitalised on buoyant credit markets in Debt Management, with the launch of four new CLO funds with aggregate third-party AUM of £1.2 billion.

The strength of the market for realisations and Simon Borrowes' success in leading 3i through an intensive restructuring process have allowed us again to demonstrate the strength of 3i's franchise. We are confident that we will deliver the remaining objectives set out in the strategic plan and we look forward to improving further the performance of the business and generating further shareholder value in years to come.

Sir Adrian Montague
Chairman

Strategic report

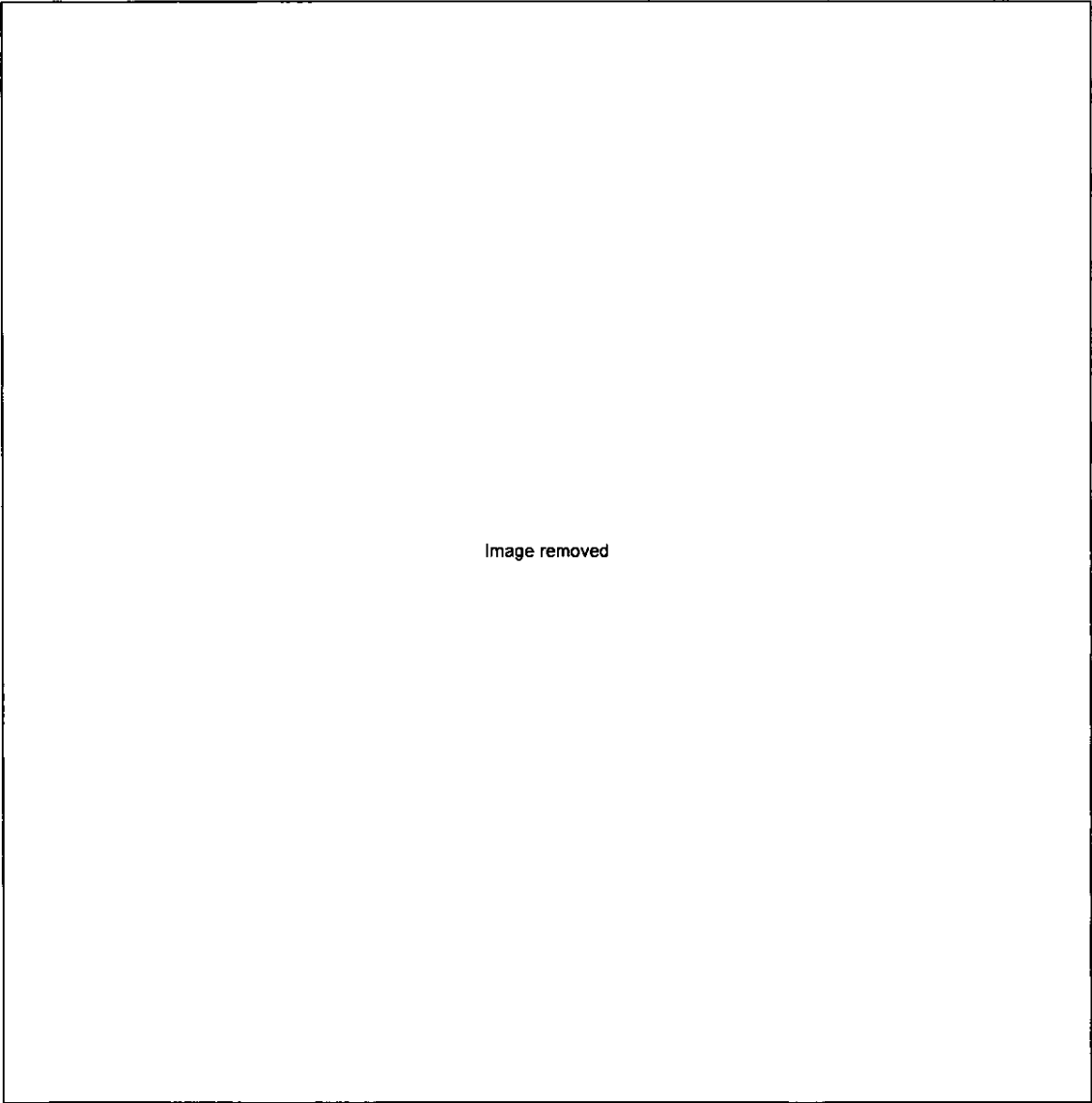
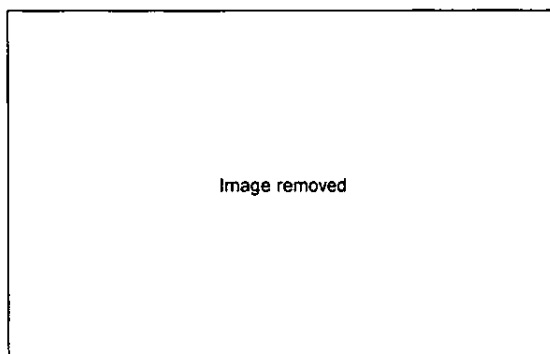


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Delivering our strategic plan

Chief Executive's review



Simon Borrows
Chief Executive

"We have met or exceeded all of our strategic priorities and targets for the year. 3i is now a more streamlined, decisive organisation focused on high performance and delivering attractive shareholder returns."

Introduction

FY2014 was another busy year for everyone at 3i. We met or exceeded all of our strategic priorities and targets for the year, and I am pleased to report a strong set of results. We are now almost two years into the three-year strategic plan that I set out in June 2012. This year's strong performance benefited from the considerable progress made during our restructuring phase in FY2013.

3i generated a total shareholder return of 30% compared to 9% for the FTSE All-Share index. Like many UK-based companies, we faced currency headwinds this year and the performance is all the more credible in view of that. During the year, we delivered a good flow of realisations and a total return of 16.3%. This included a good progression in NAV per share to 348 pence at 31 March 2014, from 311 pence at 31 March 2013.

As announced in November 2013, given the strong level of realisations, the emphasis on selective investment in these high-priced market conditions and our healthy balance sheet position, we have initiated additional shareholder distributions. The total proposed dividend for the financial year to 31 March 2014 is 20 pence per share, a yield of over 6% to the 316 pence share price at the close of 28 March 2013. We paid one-third of this – 6.7 pence per share, in January 2014 as an interim dividend. Subject to shareholder approval, we will pay the balance of 13.3 pence per share as a final dividend in July 2014.

Performance in the year

The Private Equity business made excellent progress this year generating a gross investment return of £647 million (24% on opening value), reflecting the strong realisation activity and good earnings growth across the portfolio

We continue to see significant benefits from the asset management improvement initiatives launched in FY2013. The majority of our investments generated earnings growth during the year, with larger investments such as Action continuing to perform very well. A consequence of this strong performance is an increase in the carry payable we are accruing on our Proprietary Capital, although we have some way to go before this becomes a cash payment. Overall, the Private Equity investment portfolio is in much better shape than it was two years ago and I believe it offers significant potential for further value creation.

During the year, we delivered a good flow of Private Equity realisations, generating £669 million of total proceeds for 3i and realised profits over opening valuation of £201 million, an overall uplift of 43%. Including third-party funds managed by 3i, total Private Equity realisation proceeds in the period were £1.1 billion. These were achieved at a total money multiple of 1.8x, generating good returns on both proprietary and third-party capital for the benefit of our shareholders and fund investors. We realised a mix of investments over the year, including a good number of our smaller, more challenged investments. We have not sold any of our longer-term hold investments which make up the largest part of our portfolio value. Their strong performance has led to material improvement in Eurofund V and the Growth Capital Fund, which have now recovered to 1.13x and 1.32x respectively of invested capital at 31 March 2014. This compares to 0.91x and 1.04x at 31 March 2013 respectively.

As at 31 March 2014, our Private Equity portfolio comprised 81 different investments, many of which have relatively low value. Over the next few years, as we continue to realise older and smaller value investments and pursue a focused investment strategy, we expect the number of investments held in our Private Equity portfolio to more than halve. This will create a much more manageable portfolio and generate further operating efficiencies.

For the Private Equity business, a key highlight of the year was the increased momentum in new investment activity with four key investments: Basic-Fit (leading European discount fitness operator), GIF (German-based specialist in transmission testing), JMJ (global management consultancy) and a substantial further investment in Scandlines (leading European ferry operator). In total, cash investment was £372 million, including third-party funds, of which £276 million was 3i's proprietary capital. We made these investments at careful prices and expect this group of assets to deliver considerable upside value over the medium term.

While this pick-up in new investment activity is encouraging, we remain highly selective given the current high-price environment. We continue to focus on our core sectors and geographies where we have real experience and where our international platform and capabilities are a differentiator. We focus on mid-market investments which we are able to secure using our local expertise and presence, away from highly competitive auction processes. A key aspect of our differentiated business model is that we lead investments with our own balance sheet. We aim to fund a majority of each investment with proprietary capital as well as managing the balance of third-party funds for our co-investors. This enables us to retain a material share of the alpha-generating economics.

Chief Executive's review

In **Infrastructure**, the European portfolio continued to perform well and generated a good level of cash income for the Group through both dividends and advisory fees from 3i Infrastructure plc. However the value of the 3i India Infrastructure Fund declined during the year, driven by the combination of a material depreciation in the Indian rupee and political and macroeconomic challenges in India. 3i Infrastructure plc's core European portfolio is expected to be the key driver of future performance and accounted for 78% of 3i's underlying Infrastructure portfolio value at 31 March 2014 compared with 68% at 31 March 2013.

In November 2013, 3i completed the acquisition from Barclays of their European infrastructure fund management business adding over £700 million of assets under management and experienced investment teams in both London and Paris. This business was a pioneer in the PPP market and currently manages two unlisted funds focused on UK and European PPP and low-risk energy projects. This strategic acquisition is a key milestone in the development of our Infrastructure business and I believe it will broaden and enhance our access to new investment opportunities, as well as providing a platform for future fundraising.

In February 2014 following the announcement of Cressida Hogg's departure, we appointed Ben Loomes and Phil White as Managing Partners and Co-heads of the Infrastructure business. This important leadership change brings fresh impetus and further underlines 3i's commitment to the next stage of development of its Infrastructure platform.

Furthermore, in May 2014 3i Infrastructure plc announced that it had agreed, subject to shareholder approval, and approval from the Jersey Financial Services Commission a number of amendments to the existing advisory agreement with 3i. These included extending the term of the advisory agreement for a minimum of a further five years.

There continues to be a strong demand for infrastructure assets as investors seek yield. While the market remains competitive we are seeing a number of interesting investment opportunities in our target markets. For example, in June last year, 3i Infrastructure plc invested £62 million in Cross London Trains which will own a key element of London's commuter rail infrastructure. In addition it announced investments in the National Military Museum (Netherlands) and Mersey Gateway Bridge (UK) primary PPP projects, sourced through our new PPP platform, and see a strong pipeline for further PPP investments.

In **Debt Management** third-party management fee income remained steady at £32 million (2013: £31 million) representing 44% of the Group's total third-party management fee income in the period. At 31 March 2014, the business managed £6.5 billion of assets through 28 funds: 17 in Europe and 11 in the US.

Market activity was buoyant during the year, following the re-opening of the European CLO market early in 2013. Levels of new CLO issuance in the US were dampened in early 2014 by anticipated regulatory changes but have subsequently recovered. We capitalised on this with the launch of two new European CLOs (Harvest VII and Harvest VIII) and two new US CLOs (Jamestown III and COA Summit). Together these new CLO funds added £1.2 billion of AUM including £40 million of proprietary capital.

During the year Debt Management generated a gross investment return of £16 million, equating to 20% of its opening portfolio value.

Since the period end, we have made good progress towards launching further CLO funds and we have warehousing vehicles in place in both Europe and the US to seed these future launches.

Strategic objectives and progress

Last year I set out a number of key strategic objectives

- Cover operating costs with annual cash income
- Grow third-party income and generate a sustainable annual operating profit from our fund management activities
- Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our core investment businesses

Our progress against each of these objectives is described below

Cover operating costs with annual cash income

Prior to the launch of 3i's restructuring in 2012, the Group's operating costs materially exceeded its annual cash income from management fees and portfolio income. An important target in FY2014 was to cover the Group's operating costs with annual cash income. The major cost reduction programme announced in June 2012 was a key part of achieving this objective.

In FY2013, we significantly outperformed our original target of £40 million of annualised run-rate operating cost savings, achieving £51 million of cost savings at 31 March 2013. In this context, we announced last year a new target of £60 million of cumulative run-rate cost savings to be achieved by 31 March 2014. I am pleased to report that we exceeded this target as well, delivering £70 million of run-rate cost savings at 31 March 2014. These savings represent over a third of the Group's total opening run-rate cost base of £185 million at 31 March 2012, before we announced the restructuring. As a result, actual operating costs in the year were £136 million, 20% lower than last year (2013: £170 million), including restructuring costs of £9 million (2013: £30 million). Restructuring costs were higher than the £7 million estimated in order to secure the higher savings. We expect the full benefits of this cost reduction programme to be realised during FY2015.

In FY2014, the Group's cash income was consistent with the prior year at £132 million. This was driven by the acquisition of the European PPP platform in our Infrastructure business and the launch of new CLO funds and increased portfolio income from proprietary capital deployed in our Debt Management business. This offset the reduction in fee income from Private Equity as a result of net divestment activity, as well as the Growth Capital Fund coming to the end of its investment period in the previous year.

To help you track our progress, last year we introduced a new key performance indicator called 'Annual operating cash profit'. This measures the difference between our annual cash income (cash fees from managing third-party funds and cash income from our proprietary capital portfolio) and our annual operating expenses, excluding restructuring costs. As noted above, in the past, 3i has operated at a material deficit on this measure. In FY2014, we achieved an annual operating cash profit of £5 million.

Grow third-party income and generate a sustainable annual operating profit from our fund management activities

Our Fund Management platforms in Private Equity, Infrastructure and Debt Management source and manage investments on behalf of both 3i and third-party funds. These platforms underpin our ability to make alpha-generating investments on behalf of our shareholders, co-investors and fund investors. A key objective for us is to ensure that fees from these fund management activities taken together, more than cover the costs of operating our platforms and that over time we are able to generate a sustainable annual operating profit. The costs of running our investment platforms include paying for our investment teams and the network of international offices, as well as the costs to the Group of providing support functions such as finance, information technology, compliance and human resources.

Our objective is to ensure that we maintain a profitable Fund Management platform overall, growing our AUM profitably. We have made strong progress in this regard. Since 31 March 2012, total AUM has grown from £10.5 billion to £12.9 billion at 31 March 2014. Over the same period, through the cost reduction programme, we reduced our operating costs as a percentage of weighted average AUM from 1.5% at 31 March 2012 to 1.0% at 31 March 2014, excluding restructuring costs.

Chief Executive's review

In order to assess properly the profitability of our fund management activities we consider the fees that can be generated by our entire Fund Management platform, treating proprietary capital invested on the same basis as managed third-party funds. To do this, we calculate an internal fee payable to the Fund Management business for managing our proprietary capital and call this a 'synthetic fee'. The standalone profitability of our Fund Management platform is then based on measuring the total fund management income (third-party fees plus synthetic fees) against the operating costs allocated to the platform, excluding restructuring and amortisation costs. To help you track this profitability we have introduced a new key performance indicator called 'Underlying Fund Management profit and margin' (further details on page 46). In FY2014 our fund management platform generated an underlying profit and margin of £33 million and 26% respectively compared to £17 million and 13% in FY2013.

Over time, we believe that our Fund Management platform is capable of generating sustainable and growing annual profits which in turn should create additional value for shareholders beyond the growth in value of our proprietary investments. This is an important building block of the 3i Value Build which I talked about in my last review and which is shown on page 13.

Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our core investment businesses

As part of the strategic review we fundamentally changed our capital allocation approach so that, over time, we aim to use less of our capital to pay operating costs, funding costs and debt repayment and instead focus our capital on additional shareholder distributions and investment in our core businesses.

The chart below shows the average allocation of our capital over the three years between FY2010-12. On average, 68% of the total proceeds from realisations and cash income was used to pay operating and funding costs and debt repayment leaving just 32% for shareholder distributions and investment in our core businesses. In FY2014, we improved this picture with 50% going to shareholder distributions and re-investment. We expect further improvement in FY2015.

Capital allocation

Graph removed

Business model

3i's business is a mix of proprietary capital investing and managing third-party capital. This "hybrid" asset manager business model enables us to combine capital returns from our proprietary balance sheet and recurring management fee income from our fund management activities. We believe that this represents a differentiated and attractive value proposition for our shareholders.

Investing from our own balance sheet is part of our heritage. Currently, proprietary AUM amounts to £3.4 billion, accounting for 26% of the Group's total AUM. 3i is the largest single investor in its own Private Equity and Infrastructure funds. Putting our own capital to work alongside third-party investors is a fundamental part of our business model and strategy, and gives 3i a true competitive advantage. We view our role as both an active owner as well as manager of third-party funds. This further reinforces the alignment between the interests of our shareholders, our co-investors and our fund investors.

So, in addition to generating capital returns from proprietary capital investing (our Proprietary Capital activities), we also consider the profitability of our Fund Management platform. Both parts need to generate value for the Group. Our overall objectives are to maximise investment returns from our Proprietary Capital activities and grow our Fund Management activities profitably.

We are already managing the Group with this much clearer delineation between Proprietary Capital and Fund Management. Going forward, you will be able to track our progress through new disclosures and a combination of KPIs measuring our performance as an investor of Proprietary Capital and separately as a Fund Management business, in addition to overall Group performance. These KPIs are shown on pages 16 and 17. The performance of these activities is discussed in the Financial Review, starting on page 40 and further disclosure on the breakdown between Proprietary Capital and Fund Management is shown in Note 1 to the Audited accounts on page 114.

Outlook

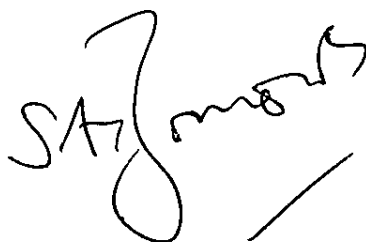
We have continued to be successful in implementing our strategic plan against a backdrop of ongoing challenges in the macroeconomic environment. Further regulation across the financial services industry is also presenting additional challenges for our business through further costs and increased complexity.

Despite this, we see the power of the 3i business model coming back well. Our network of local teams across our key geographies and our proprietary capital are two key competitive advantages. For example, in our mid-market Private Equity business, we have had teams on the ground across Europe for over 30 years and our franchise in those markets is very strong. This enables us to access attractive investment opportunities and using our own capital affords us flexibility in our approach and timescale that few of our competitors have.

The current environment is a tricky one for new investments. There is an excess of capital looking for investment opportunities and this has driven up sellers' price expectations. We have benefited from this in our realisation programme, however, as we review new investment, we will need to continue to be patient and disciplined. Our proposition can deliver healthy alpha-generating returns if we invest, manage and exit well. Careful investment in mid-market Private Equity using 3i's competitive advantages will generate significant value for the Group, its shareholders and third-party investors as well as take 3i back to sector-leading performance.

Everyone at 3i is committed and working hard to continue to deliver against our strategic plan. I would like to thank the entire 3i team for their efforts this year. They are key to our success. We are all looking forward to making further good progress in FY2015.

Simon Borrows
Chief Executive



Complementary investment platforms

Our strategic goal

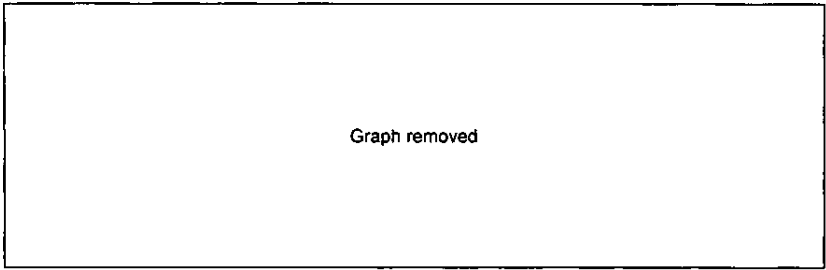
Clear vision and strategy

3i's strategic goal is to be a leading international investment manager of proprietary and third-party capital delivering top quartile cash investment returns over the longer term in

- **mid-market Private Equity,**
- **Infrastructure, and**
- **Debt Management**

Each of these businesses has different drivers and return characteristics. Together, they provide an attractive balance of income and capital returns.

We believe that the combination of our asset management skills across these complementary platforms, together with our strong balance sheet and access to permanent capital, represents a differentiated and attractive value proposition.

	Private Equity	Infrastructure	Debt Management
Illustrative capital allocation			
	● Proprietary capital ● Third-party capital		
Key return drivers	1 Capital returns 2 Portfolio income 3 Fee income	1 Portfolio income 2 Fee income 3 Capital returns	1 Fee income 2 Portfolio income 3 Capital returns
Key characteristics and sensitivity to market cycle	■ Pro-cyclical asset class ■ Realised and unrealised capital gains and carried interest	■ Counter-cyclical asset class ■ Recurring annual fee income from permanent capital vehicle and funds ■ Dividends/income from investment portfolio	■ Recurring annual third-party fee income ■ Proprietary capital "light"

How we create value

The 3i Value Build

The plan to achieve our strategic goal in financial year 2016 is set out in clear phases. During financial year 2013, we successfully executed the first phase of this strategic plan (the year of “**Restructuring**”), and we are making strong progress towards delivering the full benefits of this in financial years 2014 and 2015 (“**Transition and delivery**”) (“**Transition and delivery**”).

FY2013

Restructuring



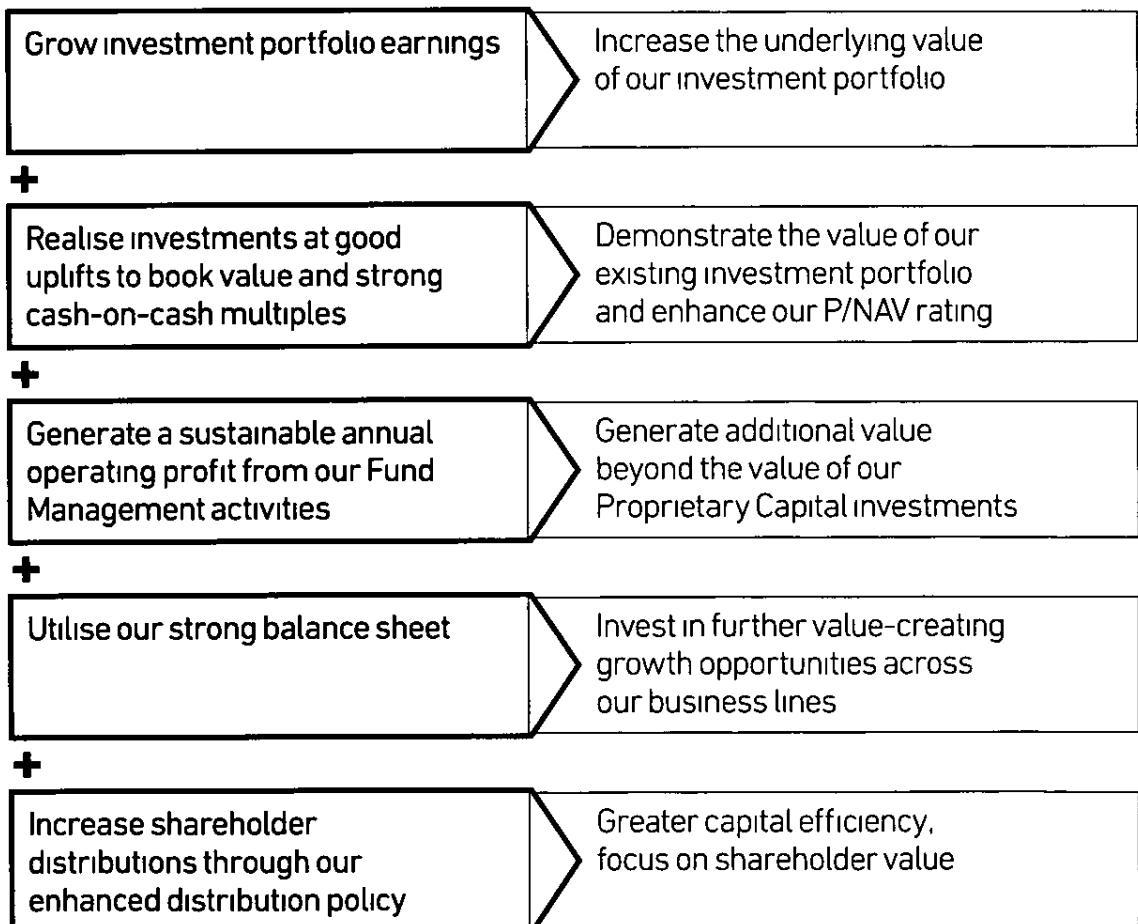
FY2014-15

Transition
and delivery

FY2016+

Strategic goal

The clear objective of this multi-year strategic plan is to improve business performance and maximise value for 3i's shareholders, co-investors and fund investors – we call this the “3i Value Build” and it comprises



Our strategic progress in FY2014

Strategic priority

Create a leaner organisation with a cost base more closely aligned with its income

Improve consistency and discipline of investment processes and asset management approach

Re-focus and re-shape the Private Equity business

Grow third-party AUM and income

Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business

Priorities in FY2014

- New target of £60m of cumulative run-rate operating cost savings by 31 March 2014, 33% increase from original target of £45m
- Cover operating costs with annual cash income by 31 March 2014 on a run-rate basis

Progress in FY2014

- Achieved £70m of cumulative run-rate operating cost savings by 31 March 2014, a 56% increase from the original target of £45m and a 17% increase from the revised target of £60m
- Achieved £5m of annual operating cash profit in FY2014

- Grow Private Equity investment portfolio earnings through asset management improvement initiatives
- Continue to re-establish investment track record through improved performance and new investment activity
- Roll-out of upgraded Private Equity IT system

- Majority of Private Equity portfolio (87% by value) grew earnings in the year and the larger investments continued to perform strongly, resulting in a gross investment return of 24%
- Completed three new Private Equity investments and one substantial further investment, with total cash investment, including third-party capital of £372m
- New IT system substantially implemented

- Continue to manage intensively the existing portfolio and realise investments at values representing good uplifts to book value and strong cash-to-cash multiples, thereby optimising the value of the portfolio for shareholders, fund investors and co-investors
- Selective investing in our core markets using a combination of proprietary capital and third-party co-investment

- Achieved £669m of Proprietary Capital proceeds from Private Equity realisations, representing a 43% uplift over opening portfolio value and a money multiple of 1.8x
- New and further investment focused on northern Europe and North America, with 74% of cash investment from 3i's Proprietary Capital

- Continue to explore opportunities to grow and develop our Fund Management platform further
- Grow annual operating profit from Fund Management activities, demonstrating additional value beyond NAV

- Growth in third-party AUM to £95bn (2013: £92bn) representing 74% of total AUM (2013: 71%)
- Strong growth in underlying Fund Management profit to £33m (2013: £17m) representing an increase of 94% from last year. Underlying Fund Management profit margin improved to 26% (2013: 13%)
- Increased fee income for Debt Management and Infrastructure of £32m and £24m respectively (2013: £31m and £21m)

- Initiate additional shareholder distributions above the annual base dividend in respect of FY2014
- Reduce gross interest payable to less than £60m excluding costs of early debt repayment
- Implement new compensation arrangements across the Group

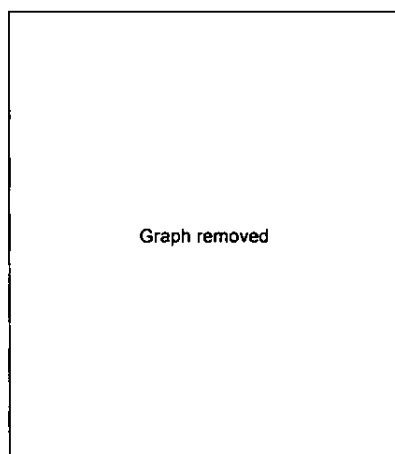
- Proposed total dividend of 20 pence per share, comprising 8.1 pence per share base dividend and 11.9 pence per share additional dividend
- Reduced gross interest costs to £54m, ahead of target
- Fully implemented new compensation arrangements

How we performed

Key Performance Indicators

Gross investment return ("GIR")

% of opening portfolio value
Financial year



Rationale and definition

- GIR is how we measure the performance of our portfolio of proprietary investments
- GIR includes profit and loss on realisations increases and decreases in the value of the investments we hold at the end of the period any income received from the investments such as interest or dividends and foreign exchange movements
- GIR, measured as a percentage, is calculated against the opening portfolio value

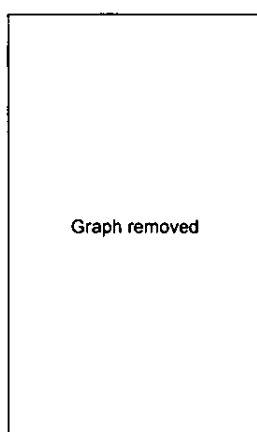
Comments

- Strong Private Equity portfolio performance reflecting benefits of asset management improvement initiatives
- Good flow of Private Equity realisations delivered realised profits over opening value of £201m representing an uplift of 43%
- Strong returns from our European infrastructure portfolio offset by currency and macro challenges in the Indian portfolio

For further information see p42

NAV and dividends

NAV per share
As at 31 March



Rationale and definition

- NAV is a measure of the fair value of our proprietary investments and the net costs of operating the business
- Dividends provide our shareholders with an annual yield as well as a direct participation in 3i's realisation activity in the period

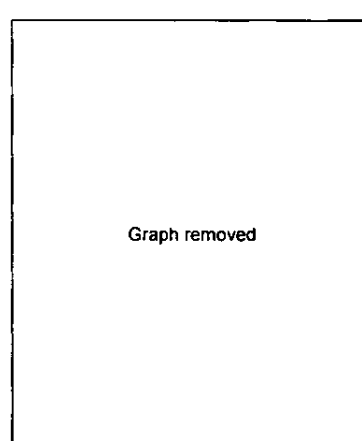
Comments

- Good progression in NAV per share to 348p, up 12% over the period after taking into account restructuring costs and dividends in the period of 1p and 12p respectively
- Sterling materially strengthened against the US dollar, euro, Indian rupee and Brazilian real in the year, resulting in a translation loss of 12p in the year which reduced NAV
- Good flow of realisations resulted in additional proposed dividend of 11.9p per share for the year over base annual dividend of 8.1p per share
- Proposed final dividend of 13.3p per share bringing total announced dividend for FY2014 to 20.0p per share

For further information see p48

Total shareholder return ("TSR")

%
Financial year



Rationale and definition

- TSR measures the absolute return to our shareholders through the change in share price and dividends paid during the period
- Annualised three-year TSR is a key performance metric used as part of Executive Directors' remuneration (see pages 87 to 102)

Comments

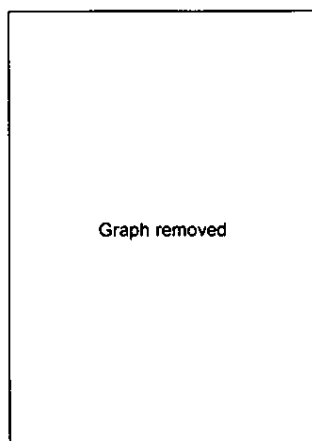
- TSR of 30% in FY2014, reflecting an increase in share price from 316p at close 28 March 2013 to 398p at close 31 March 2014, the final dividend from FY2013 of 5.4p paid in July 2013 and an interim dividend of 6.7p paid in January 2014
- During the period from the June 2012 strategic review announcement to 31 March 2014, 3i generated an annualised TSR of 56%

The financial data presented in the Overview and Strategic report relates to the investment basis financial statements. The differences from and the reconciliation to the IFRS audited statements are detailed on pages 54 to 57

Assets under management ("AUM")

(£m)

Financial year



Rationale and definition

- We invest in companies using capital from our shareholders (Proprietary Capital) and third-party investors. The total amount of capital we have to invest or are managing on behalf of our shareholders and third-party investors is called assets under management (AUM).
- AUM is an important measure since it forms the basis on which management fee income is generated.

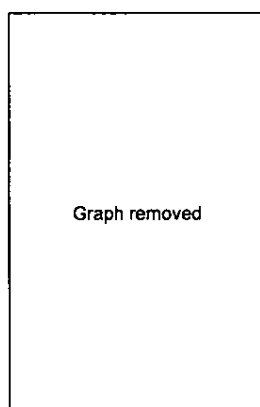
Comments

- Total AUM was stable at £12.9bn
- Growth in third-party AUM to £9.5bn (74% of total AUM)
- New funds raised in the period included two European and two US CLOs, as well as the acquisition of the management contracts of two PPP funds, offsetting the effect of Private Equity realisations and other fund run-off in Debt Management
- Proprietary Capital AUM reduced from £3.7bn to £3.4bn driven by good flow of Private Equity realisations

For further information see p22

Underlying Fund Management Profit (£m) and Margin (%)

Financial year



Rationale and definition

- 3i's Fund Management business comprises our teams that manage investments on behalf of our shareholders (Proprietary Capital) and third-party investors. The business incurs costs such as salary and rent, which should be funded by fees from third-party investors and an internal fee paid by the Group for managing its Proprietary Capital. This internal fee is called a "synthetic fee" and is discussed further on page 45.
- Underlying Fund Management profit is calculated as fee income (defined as third-party fees, synthetic fees on Proprietary Capital and portfolio fees) minus operating expenses related to Fund Management activities, excluding restructuring and amortisation costs.

Comments

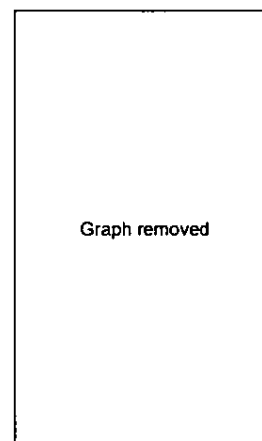
- Strong growth in underlying Fund Management profit to £33m, up by 94% compared to the previous year.
- Underlying Fund Management profit margin increased to 26% from 13% last year.
- End of investment periods for Eurofund V and the Growth Capital Fund in FY2012 and FY2013 respectively reduced fee income. Growth in FY2014 driven by full year effect of cost reduction programme and growth in Debt Management fee income, offsetting the reduction in fee income from Private Equity.

For further information see p46

Annual operating cash profit/loss

(£m)

Financial year



Rationale and definition

- We set a strategic objective of covering the annual cost of running our business (operating expenses) with the annual cash income received from our investments (portfolio dividend and interest income) and fees paid by third-party investors. We exclude the costs of restructuring the business, so that we can measure the profitability on a sustainable basis. We call this measure annual operating cash profit.

Comments

- Exceeded objective of generating annual cash income sufficient to cover operating expenses prior to restructuring costs in FY2014.
- Reflects full benefits of cost reduction programme launched in June 2012.

For further information see p42

Our strategic priorities in FY2015

Strategic priority	Priorities in FY2015
Focus on consistency and discipline of investment processes and asset management	■ Continue to improve Private Equity investment portfolio earnings through our asset management initiatives, increasing the value of our portfolio ■ Realise investments at values representing good uplifts to book value and healthy cash profits, optimising value from our portfolio
Selective new investment	■ Make new investments that generate attractive overall returns for shareholders, fund investors and co-investors
Maintain cost discipline	■ Cover the Groups operating costs with annual cash income ■ Generate a sustainable annual operating profit from our Fund Management activities
Continue to improve capital allocation, focusing on enhanced shareholder distributions	■ More efficient capital allocation model benefiting from reduced operating and funding costs ■ Enhanced shareholder distributions providing shareholders with a direct share of our realisation proceeds above the base dividend level

Business review

Image removed

Julia Wilson
Group Finance Director

"A year of significant progress with strong returns and momentum in all three businesses"

Group overview

3i Group is an international investment manager with three complementary business lines. All our business lines invest using a combination of proprietary capital from the Group's own balance sheet and third-party funds. This Business review provides detail on our performance for the 12 months to 31 March 2014 ("the period") as well as our financial position as at that date.

Summary financial data

Since the adoption of IFRS by the Group in the year ended 31 March 2006, there has been discussion about whether investment companies, such as 3i, should be exempt from consolidation for its portfolio investments. The introduction of the IFRS 10 accounting standard has resolved this point with the introduction of an investment entity exception, which is an excellent outcome as consolidation of our portfolio investments would both be impractical and limit the usefulness of our statutory accounts. We have therefore decided to adopt this standard early

The financial data presented in the Overview and Strategic report relates to the Investment basis financial statements. The differences from, and the reconciliation to, the IFRS Audited statements are detailed on pages 54 to 57.

to benefit from the exception. However, the detailed application of the standard has reduced the transparency of the Group's underlying operating performance because we are now required to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies. As a result, we have introduced separate Investment basis Statements of comprehensive income, financial position and cash flow to aid users of our report.

The numbers presented in the Overview and Strategic report refer to this Investment basis and the table on page 20 summarises our Investment basis financial results. A more detailed discussion of the impact of IFRS 10 is included on page 53 and the IFRS financial statements, together with a reconciliation to the Investment basis, are provided on pages 54 to 57.

Segmental financial data

We manage the business using the Private Equity, Infrastructure and Debt Management business line activities to organise resources and measure performance.

However, as the business has focused on the development and efficient management of total assets under management, it becomes increasingly relevant to consider the balance of fee income and operating costs from that fund management activity separately from the value and performance of 3i's proprietary investment portfolio. Consequently, alongside the investment basis statements, we have further analysed the performance of our balance sheet investments, our Proprietary Capital returns, and that of our fund management activities, our Fund Management returns. These are discussed in this section as well as being detailed in Note 1 to the Audited financial statements on page 114.

In order to assess the profitability of the Fund Management platform, we have introduced the concept of a "synthetic fee" from the Proprietary Capital business to the Fund Management business for its services in managing investments funded from our balance sheet. This has been benchmarked against our third-party capital arrangements in each business line and will be reviewed annually to ensure it remains appropriate. A fee of 1.5% is applied to Proprietary Capital invested in Private Equity and Infrastructure and 0.5% in Debt Management.

Performance

The Group generated a total return of £478 million, or a profit on opening shareholders' funds of 16.3% (2013: £373 million or 14.2%). This reflects further progress and achievement in the implementation of our strategic priorities, with good realisations at strong uplifts to opening value, an improvement in our cost and income balance, and a further reduction in gross debt and associated interest costs. However, continuing pressure in macro conditions has had a negative impact on the results in the year, principally in respect of foreign exchange.

Business review

Table 1 Summary financial data

	Year to/as at 31 March 2014	Year to/as at 31 March 2013
Group		
Total return	£478m	£373m
Total return on opening shareholders' funds	16.3%	14.2%
Dividend per ordinary share	20.0p	8.1p
Total shareholder return ¹	30%	54%
Operating expenses	£136m	£170m
As a percentage of assets under management ²	1.0%	1.3%
Annual operating cash profit/(loss)	£5m	£(8)m
Proprietary Capital		
Realisation proceeds	£677m	£606m
Uplift over opening book value	£202m/43%	£190m/46%
Money multiple	1.8x	2.1x
Gross investment return ³	£665m	£598m
As a percentage of opening 3i portfolio value	20.2%	18.7%
Operating profit ⁴	£539m	£386m
Cash investment	£337m	£149m
Net interest payable	£51m	£95m
3i portfolio value	£3,565m	£3,295m
Gross debt	£857m	£1,081m
Net debt/(cash)	£160m	£335m
Gearing	5%	11%
Liquidity	£1,197m	£1,082m
Net asset value	£3,308m	£2,934m
Diluted net asset value per ordinary share	348p	311p
Fund Management		
Total assets under management	£12,911m	£12,870m
Third-party capital	£9,508m	£9,176m
Proportion of third-party capital	74%	71%
Total fee income	£127m	£127m
Third-party fee income	£76m	£71m
Operating profit/(loss) ⁴	£19m	£(13)m
Underlying Fund Management profit ^{4,5}	£33m	£17m
Underlying Fund Management margin	26%	13%

1 Total shareholder return is calculated as the share price movement between the close of business on the last trading day of the prior year and close of business on the last trading day of the current year plus shareholder distributions

2 Actual operating expenses excluding restructuring costs of £9 million in the year to 31 March 2014 and £30 million in the year to 31 March 2013 as a percentage of weighted average assets under management

3 Gross investment return includes £3 million of portfolio fees allocated to Fund Management

4 Operating profit for the Proprietary Capital and Fund Management activities excludes carried interest payable/receivable which is not allocated between these activities

5 Excluding Fund Management restructuring costs of £8 million and amortisation costs of £6 million (2013: £24 million, £6 million)

The Group generated a gross investment return of £665 million (2013: £598 million). Split by business line Private Equity generated £647 million, Debt Management £16 million and Infrastructure £2 million. Further detail about the performance of our business lines is set out on pages 23 to 29 for Private Equity, 30 to 34 for Infrastructure and 35 to 39 for Debt Management and Note 1 of the Audited financial statements on page 114.

As well as a good total return, the operating cash flow position has significantly improved and cash portfolio and fee income now cover the operating costs of the business. A modest increase in third-party assets under management and the successful cost reduction programme led to annual operating cash profit of £5 million in the period, exceeding our target to be breakeven by 31 March 2014. This compares with an £(8) million loss last year and an average loss of £(29) million pa in the period from FY2011 to FY2013.

This means we are operating a much more financially robust platform. Sustaining this position by growing cash income and maintaining a relentless focus on costs remains a key objective. More detail on the annual operating cash profit measure and on operating expenses is set out on pages 42 and 41 respectively.

The primary driver of the improvement in annual operating cash profit was a reduced level of operating expenses. The Group significantly exceeded its updated run-rate cost savings target of £60 million by 31 March 2014 (against an original target of £45 million), delivering cumulative like-for-like savings of £70 million, a 38% reduction from the £185 million opening run-rate cost base at 31 March 2012.

A consequence of the strong investment performance was an increase in the amount we accrued in the year for carry payable. The charge in the year was £85 million (2013: £12 million). Further detail is provided in the Financial review.

The Group's **Proprietary Capital** portfolio performed well in the period with a gross investment return of £665 million or 20.2% of opening portfolio, and an operating profit before carry of £539 million (2013: £598 million, 18.7%, £386 million). Strong realisations delivering cash proceeds of £677 million and realised profits of £202 million (2013: £606 million and £190 million) and good value growth of £475 million (2013: £253 million), were the largest contributors. The Private Equity portfolio performed strongly with average last 12 month earnings growth of 19%. Portfolio income was stable at £101 million (2013: £103 million) and benefited from an increased contribution from Debt Management. This was offset by net interest payable of £51 million, which is materially lower than last year (2013: £95 million). The Proprietary Capital business also incurred operating expenses of £28 million (2013: £30 million) and a synthetic fee for investment management payable to the Fund Management business of £51 million (2013: £56 million). This synthetic fee was benchmarked against third-party arrangements. Foreign exchange volatility, and particularly the strength of sterling, led to a £116 million non-cash accounting charge in the period (2013: £30 million gain).

Net interest payable benefited from the further steps taken to reduce gross debt in the period, principally by the repayment of drawings under a revolving credit facility in April 2013. Gross interest payable of £54 million was below the target of £60 million in FY2014. As at 31 March 2014, gross debt was £857 million, a reduction of 21% since the start of the period and over 47% since 31 March 2012. Strong realisations mean that at 31 March 2014 net debt had reduced to £160 million compared to £335 million at 31 March 2013, even after reflecting the good investment activity in the latter part of the year. Gearing was 5% at the end of the period (2013: 11%).

The Group's **Fund Management** income is driven by total assets under management (AUM) which were £12.9 billion at 31 March 2014 (2013: £12.9 billion). In the period we closed the first new European CLO (Harvest VII) since the establishment of the Debt Management business in February 2011, an important milestone for the business.

This added £310 million to AUM and was followed by a further European CLO (Harvest VIII, £425 million) in March 2014. The US Debt Management business has continued to grow strongly with two CLOs launched in the year, adding \$900 million to AUM.

The proportion of third-party assets under management grew to 74% from 71% during the year. Infrastructure grew following the acquisition of BIFM, completed in November 2013, which added a further £780 million of AUM. Private Equity AUM reduced in the year as a result of net divestment activity.

Fees are earned on third-party capital and, as noted above, the Proprietary Capital business also generates a synthetic fee for the Fund Management business. Fund Management income in the year was flat at £127 million (2013: £127 million), notwithstanding the effect of net divestment in Private Equity.

For the Fund Management business to be profitable on a sustainable basis, tight cost control is critical. The positive impact of the cost reduction programme initiated in June 2012 is now clearly shown in the results. Total Fund Management operating expenses fell by 23% in the period to £108 million (2013: £140 million), including £8 million of restructuring costs (2013: £24 million) and the addition of £6 million of costs relating to acquisitions in the period.

Consequently, the Fund Management business improved both its absolute profit and profit margin in the period. Fund Management operating profit before carry at £19 million represented a margin of 15% (2013: £(13) million loss and (10)%). On an underlying basis, excluding restructuring and amortisation costs, the profit and margin were £33 million and 26% (2013: £17 million, 13%).

The acquisition of the Barclays Infrastructure Funds Management business (BIFM), which completed in November 2013, will further increase third-party fee income and positions the Infrastructure business for growth. Fees generated from the team's managed funds marginally exceeded the operating costs of the acquired business in the period to 31 March 2014.

The financial profile of the Group with regard to Proprietary Capital performance, annual operating cash profit, Fund Management profit and balance sheet strength has materially improved, and the Group has now met the criteria for making additional distributions set out in May 2012. Realisation proceeds, including the carry forward of £222 million of proceeds from the sale of Mold-Masters in the prior period, totalled £899 million at 31 March 2014. Investment levels have improved as momentum builds but we are at the lower end of capacity as prices remain high. Taking all these factors into account, the Board has therefore confirmed, as indicated in November 2013, that it proposes a total dividend of 20 pence per share for the year, of which 8.1 pence per share is our base dividend. Following the payment of an interim 6.7 pence per share dividend in January 2014, the final dividend proposed is 13.3 pence per share, subject to shareholder approval.

Assets under management

The Group's total AUM increased by £41 million to £12,911 million during the year. Assets managed on behalf of third parties increased as a proportion of the total to 74% from 71% at the beginning of the year.

The acquisition of the Barclays Infrastructure Funds Management business, which invests in PPP projects and completed in November 2013, added £780 million of AUM to the Infrastructure business line. Debt Management successfully raised two CLOs in Europe and two CLOs in the US, which more than offset the reduction in the value of assets managed in the CLO and other Debt Management fund vehicles that have reached the end of their re-investment period. Net divestment activity in Private Equity led to a fall in AUM of £662 million. Movements in foreign exchange rates also had a negative impact of £374 million on total AUM.

The table below summarises the key movements in the period. Fund by fund details are shown in the relevant business line sections of this business review.

Table 2 Reconciliation of movements in assets under management by business line

	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m
AUM at 31 March 2013	4,851	1,579	6,440	12,870
of which proprietary capital	3,145	481	68	3,694
of which third-party capital	1,706	1,098	6,372	9,176
Investment (cost)	611	–	–	611
Divestment/Distributions (cost)	(1,273)	–	(918)	(2,191)
3i Infrastructure plc NAV movement	–	12	–	12
Acquisitions	–	780	–	780
New funds raised ¹	–	–	1,203	1,203
Foreign exchange movements and other	(57)	(77)	(240)	(374)
AUM at 31 March 2014	4,132	2,294	6,485	12,911
of which proprietary capital	2,788	483	132	3,403
of which third-party capital	1,344	1,811	6,353	9,508

¹ Includes 3i investment into new funds where applicable.

Chart 1 External investor base for non-listed funds managed and advised by geographical location as at 31 March 2014

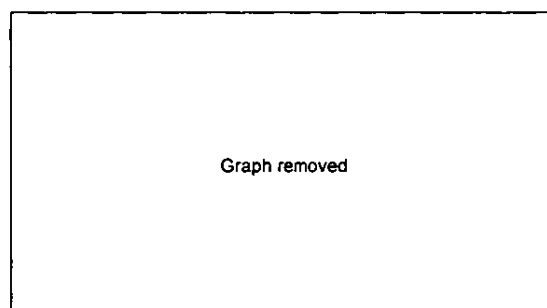
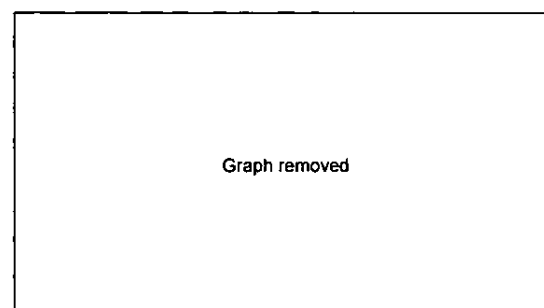
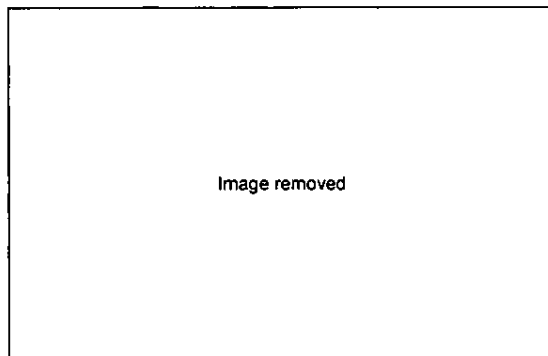


Chart 2 External investor base for non-listed funds managed and advised by type of investor as at 31 March 2014



Private Equity performance

Business lines



Alan Giddins
Managing Partner
Co-head Private Equity

Menno Antal
Managing Partner
Co-head Private Equity

"Strong performance driven through a combination of earnings growth and successful realisations, together with growing momentum in new investment"

Introduction

3i's Private Equity business employs 59 investment professionals focused on making and managing mid-market investments in northern Europe and North America

The Private Equity business also manages the existing portfolio in southern Europe, Asia and Brazil. During the year we announced that we would not be making any new investments or pursuing a fund raise in Brazil and have reduced the cost and resources applied to it.

As at 31 March 2014, the Private Equity portfolio consisted of 81 companies with operations in over 80 countries. Assets under management at 31 March 2014 were £4.1 billion (2013: £4.9 billion) and the reduction reflects the net divestment activity seen in the period. However, the value of 3i's proprietary capital invested in the Private Equity portfolio at 31 March 2014 was £2.9 billion (2013: £2.7 billion) due to good value growth across the portfolio more than offsetting net divestment activity.

The business performed well in the year and the gross investment return was £647 million or 24% of the opening portfolio value (2013: £562 million or 21%) reflecting strong realisation activity and good earnings growth in the portfolio.

Within this, the European and North American portfolio performed particularly well, delivering a gross investment return of £698 million (30%) while the portfolio in Asia and Brazil delivered a loss of £51 million (13% loss).

Investment activity picked up in the second half of the year. We completed three new investments in JMJ, GIF and Basic-Fit, and there was a significant further investment as we completed the buyout of our co-shareholder in Scandlines.

Private Equity business model

3i's Private Equity business is focused on making mid-market private equity investments

Originate	Invest	Grow	Exit
Identifying leading mid-market businesses in northern Europe and North America	Use 3i's local network, sub-sector insight and investment disciplines to select attractive assets at the right price, investing in four to six opportunities annually and financing them appropriately	Build these businesses through international expansion, organic growth and acquisitions, and optimise their operations in partnership with top class management teams	Maximising value through timely and well-executed exit strategies

The main driver of performance is investment returns. In addition, management fees and carried interest are generated from third-party capital invested. Private Equity investments account for 82% of the Group's Proprietary Capital portfolio.

Private Equity performance

Investment and realisations activity

Merger and acquisition (M&A) volumes during the year to 31 December 2013 declined in Europe and in the smaller to mid-market segments (source Capital IQ). This led to lower private equity deal flow and with capital availability remaining high from both principal investors and debt providers, highly competitive auctions and high prices were a significant feature of market conditions (source KPMG M&A Predictor January 2014).

In this environment, we have remained selective and focused on sourcing deal flow outside of highly competitive processes. Private Equity invested a total of £372 million cash (2013 £182 million) in the year, of which 74% was Proprietary Capital and 26% third-party capital. Eurofund V invested £61 million in the Scandlines further investment in the year

and £28 million was invested from co-investment arrangements in three of the new investments made in the year in return for management fees and other income as well as carried interest.

Proprietary Capital of £188 million was invested in three new investments and £77 million in the further investment into Scandlines. In addition £8 million was invested to support restructurings or covenant issues (2013 £13 million) and £3 million for other investments (2013 £2 million). Other non-cash investment includes capitalised interest of £167 million recognised in the loan portfolio (2013 £113 million). This included £28 million (2013 £7 million) of interest which was recognised in the prior year and now capitalised and £106 million (2013 £75 million) of interest provided against as a result of the principal loan value being below par.

Table 3 provides details of the investments made in the year

Table 3 Private Equity investment in the year to 31 March 2014

Investment	Type	Business description	Date	Total investment £m	Proprietary Capital investment £m
Basic-Fit	New	Discount fitness operator in Europe	December 2013	95	81
Scandlines	Further	Ferry operator in the Baltic sea	December 2013	138	77
GIF	New	International transmission testing specialist	October 2013	64	63
JMJ	New	Global management consultancy	October 2013	57	44
Other cash investment	Other		n/a	18	11
Total cash investment				372	276
Non-cash investment				244	167
Total				616	443

In light of the market dynamics noted above there has been a positive environment for exits and we have continued to make progress, in particular, in exiting our smaller or older investments. We were able to achieve a number of very successful realisations with carefully structured and executed exit plans generating competition among buyers and premium exit prices. We were also able to take advantage of strong equity markets most notably in our IPO and partial exit from Quintiles.

Private Equity generated Proprietary Capital proceeds from realisations of £669 million (2013 £575 million) at a 43% uplift over opening portfolio value (2013 49%). Notable exits included the sale of Xellia which generated proceeds of £143 million and an uplift over opening portfolio value of 46%

the sale of Civica for £124 million and a 48% uplift on opening portfolio value, and the partial sale of shares in Quintiles which generated proceeds of £51 million and an uplift of 70% over opening portfolio value. The realisations from the Private Equity portfolio generated an aggregate money multiple of 1.8x (2013 2.1x). The multiple incorporates the sale of Enterprise, a 2007 investment which was written down by £201 million in FY2011 and sold for £7 million in April 2013.

Total proceeds of £1,091 million were generated in the period (2013 £733 million) on behalf of shareholders and third-party investors.

Table 4 Private Equity realisations in the year to 31 March 2014

Investment	Country	Calendar year invested	31 March 2013 value £m	31 realised proceeds £m	Profit/(loss) in the year ¹ £m	Uplift on opening value ¹ %	Money multiple over cost ²	IRR
Full realisations								
Xellia	Nordic	2008	99	143	45	46%	2.3x	18%
Civica	UK	2008	84	124	40	48%	2.1x	17%
Trescal	France	2010	51	58	8	16%	2.1x	31%
Hyperion	UK	2008	43	44	1	2%	1.7x	12%
Everis	Spain	2007	22	29	7	32%	1.1x	1%
Bestinvest	UK	2007	4	25	21	525%	0.6x	(8)%
Joyon	China	2007	15	21	5	31%	1.8x	15%
HTC	Nordic	2006	10	13	3	30%	0.6x	(6)%
Franklin	Singapore	2007	10	12	2	20%	1.5x	10%
Futaste	China	2007	8	9	nil	–	0.9x	(2)%
Enterprise	UK	2007	8	7	(1)	(13)%	0.1x	(48)%
Newron	Italy	1999	3	4	1	33%	0.7x	(3)%
Other investments	n/a	n/a	5	11	7	175%	n/a	n/a
Partial realisations²								
Action	Benelux	2011	48	59	11	23%	5.3x	94%
Quintiles	USA	2008	30	51	21	70%	2.6x	23%
Gain Capital	USA	2008	8	12	4	50%	0.9x	(1)%
Scandlines	Germany	2007	7	7	nil	–	1.7x	21%
Other investments	n/a	n/a	14	7	(7)	n/a	n/a	n/a
Deferred consideration								
ABX	Benelux	2006	nil	14	14	n/a	6.3x	139%
EUSA Pharma	UK	2007	nil	12	12	n/a	2.6x	21%
Betapharm	Germany	2004	nil	2	2	n/a	2.4x	52%
MWM	Germany	2007	nil	2	2	n/a	3.1x	31%
Mold Masters	Canada	2007	nil	2	2	n/a	2.7x	21%
Other investments	n/a	n/a	nil	1	1	n/a	n/a	n/a
Total			469	669	201	43%	1.8x	n/a

1 Cash proceeds in the period over opening value realised

2 Cash proceeds over cash invested. For partial realisations and recapitalisations, valuations of any remaining investment are included in the multiple

Table 5 Private Equity realisations by type for the year to 31 March

	2014 £m	2013 £m
Trade sales	229	362
Secondaries	220	25
Loan repayment	59	6
Quoted asset sales	67	117
Deferred consideration	33	18
Other including management buybacks	61	47
Total	669	575

Private Equity performance

Gross investment return

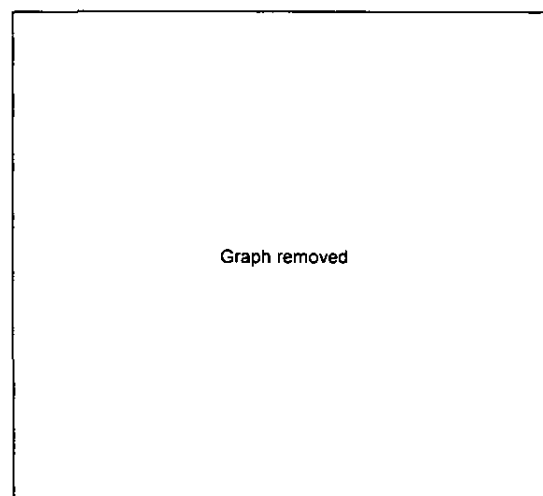
Table 6 Gross investment return for the year to 31 March

	2014 £m	2013 £m
Realised profits over value on the disposal of investments	201	190
Unrealised profits on the revaluation of investments	478	250
Portfolio income		
Dividends	13	22
Income from loans and receivables	46	52
Fees receivable/(payable)	9	4
	747	518
Foreign exchange on investments ¹	(100)	44
Gross investment return¹	647	562

¹ Following a change in presentation to align to strategy, foreign exchange revaluation movements on the portfolio are now shown as part of the gross investment return. Comparatives have been restated accordingly.

The portfolio generated a gross investment return of £647 million or 24% of the opening portfolio (2013 £562 million or 21%). Strong realisations at good uplifts over opening value, as set out on page 25, contributed £201 million of realised profit (2013 £190 million).

The remaining portfolio also performed well with value growth of £478 million in the year (2013 £250 million). This was underpinned by good value weighted earnings growth of 19% – a multiple increase of 20% following rises in stock markets during the year and the re-rating of a small number of assets – and stable net debt in the portfolio of 3.1x EBITDA (2013 10% 7% and 3.2x). The majority of the portfolio (87% by value) grew earnings in the year and the larger investments continue to perform strongly. Chart 3 shows earnings growth rates across the portfolio.

Chart 3 Portfolio earnings growth weighted by March 2014 carrying values¹

¹ Includes all companies valued on an earnings basis where comparable earnings data is available. This represents 66% of the Private Equity portfolio.

In the case of Action, the Benelux headquartered discount retailer EBITDA for valuation purposes is adjusted to reflect a run-rate basis. Action is growing strongly due in large part to its successful store roll-out programme. We believe this run-rate methodology fairly reflects the high growth characteristics of this business and therefore its maintainable earnings. We continue to monitor closely the high level of transaction and IPO activity in the discount retail sector in order to appropriately benchmark value and have applied a 13.2x pre-discount and 12.5x post-discount EBITDA multiple at 31 March 2014. Action is the largest Private Equity investment by value, valued at £501 million at 31 March 2014 (2013: £280 million) after a recapitalisation which returned £59 million of proceeds in the year. At 31 March 2014, Action represented 17% of the Private Equity portfolio (2013: 10%) and based on the run-rate earnings and capital structure at 31 March 2014, a 1x movement in the EBITDA multiple applied would increase or decrease value by c. £50 million.

We also saw strong value growth from successful IPOs with Quintiles listing in May 2013, leading to unrealised value growth of £62 million in addition to realised profits of £21 million in the year. Since the period end, Phibro also listed in the US and its value at 31 March 2014 reflected the IPO price. Phibro recorded value growth of £42 million in the year.

Although performance overall was good, there were inevitably a small number of investments where company and geography specific issues impacted value. In total, we saw reductions in value of £134 million offsetting the general improvement. The largest negative movement related to Hobbs, which was reduced in value by £26 million earlier in the year; it was valued at £21 million at 31 March 2014 which was in line with the valuation at 31 December 2013.

Forecast earnings used when the forecast EBITDA outlook is lower than the last 12 months' data and a lead indicator of negative portfolio outlook, were used for only four investments at 31 March 2014, representing 9% of the portfolio by number and 3% by value (2013: 11: 22% by number and 11% by value).

The net debt position of the portfolio reduced marginally in the period and the average ratio of net debt to EBITDA, for those assets valued on an earnings basis, was 3.1x at 31 March 2014 (2013: 3.2x). Successful refinancings within the portfolio extended the maturity of portfolio debt, with 79% of the debt repayable in 2016 or later (2013: 65%). Chart 4 shows the ratio of net debt to EBITDA weighted by portfolio value.

The combination of earnings growth and net debt reduction (performance) led to a value increase of £182 million (2013: £141 million).

Equity markets were strong throughout the year and the average EBITDA multiple in the FTSE 250 increased by 20% to 13.3x in the period. As a matter of policy, we select an appropriate multiple for each investment based on a comparable set of quoted companies and we may also apply caps and discounts to these comparable multiple sets to take account of relevant size, sector and cycle considerations as appropriate.

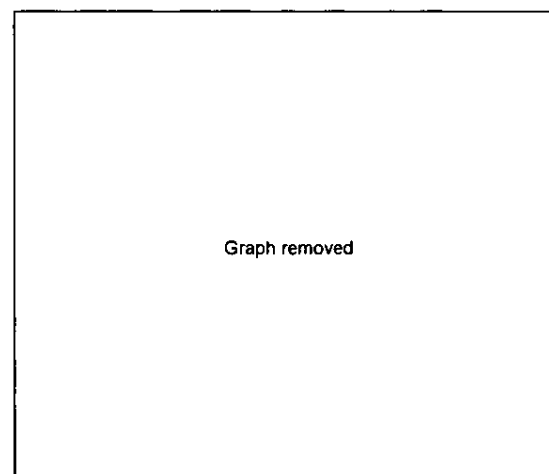
Against a strong market backdrop, we have applied these to a greater proportion of the portfolio during the year. The average EBITDA multiple used to value the Private Equity portfolio increased by 20% to 10.6x before marketability discount (2013: 8.8x) and 9.9x after marketability discount (2013: 7.9x). This translated into a positive movement in the period of £216 million (2013: £36 million). Excluding Action, the average EBITDA multiple increased by 13% to 9.8x pre discount (2013: 8.7x) which represented 9.0x (2013: 7.8x) post discount.

Portfolio income of £68 million (2013: £78 million) decreased as a result of net divestment activity. Income from loans and receivables reduced as a result of net divestment to £46 million (2013: £52 million); dividends received reduced to £13 million (2013: £22 million) but other portfolio income improved to £9 million (2013: £4 million) as we secured good fees on increased investment activity.

81% of the Private Equity portfolio value at 31 March 2014 was invested outside the UK, with 59% in investments denominated in euros and 16% denominated in US dollars. The reduction in currency portfolio hedging during the year and sterling's appreciation against the euro and dollar reduced the portfolio valuation at the balance sheet date by £100 million in the period (2013: £44 million gain).

The long-term performance of the Private Equity business is monitored through tracking the money multiple and IRR of investments. Information detailing the performance of the portfolio on a vintage by vintage basis, together with further portfolio analysis, is available on 3i's website www.3i.com.

Chart 4 Ratio of debt to EBITDA – Private Equity portfolio weighted by March 2014 carrying values¹



¹ This represents 98% of the Private Equity portfolio

Private Equity performance

Fund Management activity

Table 7 Assets under management

Private Equity	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2014	% invested at March 2014	Gross money multiple ¹ at March 2014	AUM	Fee income received in the year £m
3i Growth Capital Fund	March 2010	€1 192m	€800m	€376m	53%	1.3x	€562m	2
3i Eurofund V	Nov 2006	€5 000m	€2 780m	€292m	90%	1.1x	€2 756m	14
3i Eurofund IV	June 2004	€3 067m	€1 941m	€78m	96%	2.3x	€444m	1
3i Eurofund III	July 1999	€1 990m	€995m	€90m	91%	2.1x	€111m	–
Other	various	various	various	n/a	n/a	n/a	€1 168m	–
Total Private Equity AUM							£4 132m	17

1 Gross money multiple is the cash returned to the fund plus value as at 31 March 2014 as a multiple of cash invested

AUM reduced to £4 132 million at 31 March 2014 (2013 £4,851 million) as a result of the net divestment activity in the year and the strengthening of sterling against the euro

We continued to build relationships with leading investors who can invest alongside 3i in future transactions in return for management fees, other income and carried interest. Two of the three new investments made in the period, JMJ and Basic-Fit, were partially funded through this route.

The performance of Eurofund V and the Growth Capital Fund improved markedly in the year. At 31 March 2014, Eurofund V had a gross money multiple of 1.13x invested capital (2013 0.91x) with strong performance from Action EMT Hilti and Scandlines contributing to its improved value. The Growth Capital Fund also grew returns strongly, particularly supported by the performance of Quintiles and full realisation of Hyperion.

Table 7 above details the current Private Equity AUM.

Fee income from third parties reduced in the period, as funds that are past their investment periods continued to realise investments from their portfolios. We continue to focus on securing other fees as we increase investment to mitigate this effect, but the net divestment position overall led to a reduction in the third-party fee income to £17 million (2013 £19 million).

Priorities for the year ahead

We seek to use our local teams to find opportunities and selectively invest in our core markets of northern Europe and North America, focused on international growth businesses.

We will work with co-investment partners on new investments to strengthen relationships and further expand the group of investors we will work with in the future.

We will continue to manage intensively the existing portfolio by implementing clear value-building strategies and realising investments well through carefully planned and executed exit strategies. This will benefit both 3i and our third-party investors.

Case study

Civica – Realisation

Civica is a market leader in specialist systems and business process services for public sector organisations. It supplies over 2,500 organisations in the UK, Australia, New Zealand, Singapore, Canada and the US.

We invested in UK-based Civica in 2008 alongside Eurofund V, in a public to private transaction. We backed the incumbent management team, led by Simon Downing as Chief Executive and, through our Business Leaders Network, introduced Mike Jeffries as Chairman who brought 30 years of support services experience including similar roles at VT Group and WS Atkins.

Our investment helped accelerate Civica's strong underlying organic growth through the completion of 10 acquisitions in the UK, Australia and New Zealand adding key product and geographical presence. Further, we supported the investment and diversification into business process outsourcing which helped significantly strengthen Civica's strategic positioning during a period of unprecedented change in Government spending.

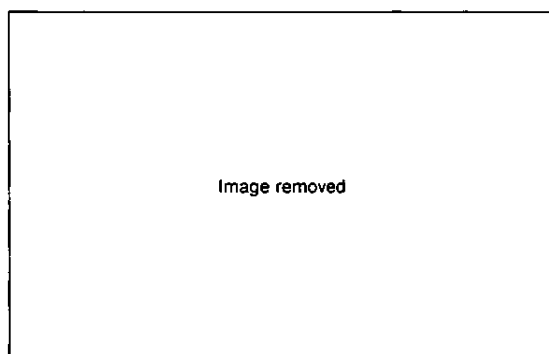
In May 2013, having run a carefully planned sale process that attracted significant interest, we sold Civica to OMERS Private Equity. The enterprise value of the transaction was £390 million and total proceeds to 3i of £124 million represented a 2.1x money multiple on its investment.

More information can be found at www.3i.com

Image removed

Infrastructure performance

Business lines



Phil White
Managing Partner
Co-head Infrastructure

Ben Loomes
Managing Partner
Co-head Infrastructure

“The European portfolio continues to perform well, while the acquisition of BIFM has increased the breadth of capability in the team”

Introduction

3i's Infrastructure business employs 31 investment professionals focused on originating and managing both core and Public Private Partnership (“PPP”) infrastructure investments

During the year we completed the acquisition of Barclays Infrastructure Fund Management business (BIFM) adding specialist investment skills in the PPP sector

The leadership of the Infrastructure business changed in the year. Cressida Hogg left 3i at the end of March and Ben Loomes and Phil White were appointed Managing Partners and Co-heads of the business

At 31 March 2014, the underlying Infrastructure portfolio consisted of 17 investments, held through 3i Infrastructure plc (3iN) and the 3i India Infrastructure Fund (India Fund). The business also managed an additional 111 investments held by the two funds managed by BIFM. 3i has no proprietary capital invested in these two funds. Assets under management at 31 March 2014 were £2.3 billion (2013: £1.6 billion) and the increase primarily reflects the addition of two BIFM funds. The value of 3i's Proprietary Capital invested in the Infrastructure portfolio at 31 March 2014 was £487 million (2013: £507 million).

Infrastructure business model

3i's Infrastructure business is focused on making and managing infrastructure investments, and in managing for value the investments in the India Fund ahead of an exit. The strategy is built around the following components:

Originate

Focused on the core infrastructure and PPP and renewable energy project markets, primarily in the UK and northern Europe

Manage the portfolio

Drive yield and capital growth from investments by optimising their operations over time, implementing strategies that deliver value over the long term

Grow AUM

By leveraging the breadth of capability and product offering to raise new funds

The drivers of performance are balanced between growing fund management returns and investment returns, particularly from 3i's 34% equity holding in 3iN and 21% LP stake in the India Fund

Gross investment return in the period of £2 million or 0% of the opening portfolio (2013: £22 million or 4%) was impacted by both operational and macroeconomic challenges in the India Fund portfolio as well as the marked weakening of the Indian rupee against sterling. The core European portfolio continued to perform well.

Investment and realisations activity

The level of competition for infrastructure assets in Europe remained high in the year as they continue to be in demand from an increasing range of investors for their defensive and cash yielding characteristics. This was intensified by high levels of debt availability for infrastructure investments. Consequently, the team maintained a prudent approach to new investment and the level of investment on behalf of its advised and managed vehicles remained relatively low.

A total of £84 million was invested by the vehicles managed or advised by 3i. The largest single investment in the year was Cross London Trains, a company established to procure and lease the rolling stock for use on the Thameslink passenger rail franchise, made by 3iN. 3iN also completed the investments in the National Military Museum PPP project in The Netherlands for £5 million and an investment in the Mersey Gateway Bridge PPP project in the UK of £13 million. These deals were both sourced by the new PPP team.

Table 8 provides details of the investments made in the year.

We sold one investment in the period, a stake in a small manager of PPP funds, generating proceeds of £2 million and a small profit on opening book value. Following the acquisition of BIFM, there was no longer a strategic reason for retaining a stake in that business.

Table 8 Infrastructure investment in the year to 31 March 2014

Investment	Business description	Date	Total investment £m	Proprietary Capital investment £m
Cross London Trains	Acquisition and on-leasing of passenger rolling stock for the Thameslink rail network	June 2013	62	–
National Military Museum	Design, build, finance and maintenance of a museum facility under a PFI framework	November 2013	5	–
Mersey Gateway Bridge	Design, build, finance and operating of a new tolled bridge over the Mersey river	March 2014	13	–
Other		n/a	4	–
Total			84	–

Infrastructure performance

Gross investment return

Table 9 Gross investment return for the year to 31 March

	2014 £m	2013 £m
Realised profits over value on the disposal of investments	1	–
Unrealised (losses) on the revaluation of investments	(13)	(2)
Portfolio income		
Dividends	21	18
Income from loans and receivables	–	–
Fees receivable	–	–
	9	16
Foreign exchange on investments ¹	(7)	6
Gross investment return¹	2	22

¹ Following a change in presentation to align to strategy, foreign exchange revaluation movements on the portfolio are now shown as part of the gross investment return. Comparatives have been restated accordingly.

The portfolio generated a gross investment return of £2 million, or 0% of the opening portfolio (2013: £22 million or 4%).

The value of the Group's 34% holding in 3iN increased by 1% in the year to 31 March 2014, generating an unrealised value gain for the Group of £5 million for the year. The Group also received dividend income of £21 million from 3iN in the year (2013: £18 million). This return was underpinned by the performance of 3iN's European portfolio, which continued to generate good levels of income and value growth. In particular, 3iN's holdings in Elenia and Eversholt saw strong value gains, underpinned by the re-financing of their acquisition debt facilities at attractive terms, as well as by their continued strong operational performance. Its 10% holding in AWG ended the year broadly flat in valuation terms. The ongoing regulatory review of the UK water sector is expected to conclude in December 2014. 3iN's PPP portfolio also delivered robust value gains and good levels of income.

The valuation of the India Fund investments continued to be affected by a number of macroeconomic and market factors resulting in an unrealised value loss of £18 million, which more than offset the gain generated by 3iN. The India Fund power investments, in particular, have experienced issues around fuel supply and costs and their ability to pass increased fuel costs to their customers. The road investments faced challenges in project execution due to delays relating to land acquisitions and working capital constraints in the construction sector.

At 31 March 2014, 22% of 3i's Proprietary Capital underlying portfolio was denominated in Indian rupees (2013: 32%). The weakness in the Indian rupee and US dollar against sterling impacted the portfolio valuation at the balance sheet date. A translation charge of £7 million (2013: £6 million gain) further offset the good underlying performance in Europe in the period.

Further portfolio analysis can be found on 3i's website, www.3i.com.

Fund Management activity

AUM increased to £2,294 million at 31 March 2014 (2013 £1,579 million) as a result of the acquisition of BIFM and growth in the NAV of 3iN, offset by a reduction due to foreign exchange translation in the AUM of the India Fund which is denominated in US dollars

We continue to explore potential fund raising options with a focus on primary PPP investing as a result of the expansion in capability in that area

Table 10 below details the current Infrastructure AUM

Fee income from third parties increased in the year to £24 million (2013: £21 million) which reflects stable 3iN fee income, four months of fee income from acquired funds and lower fee income from the India Fund. BIFM is expected to generate, prior to any additional fund raising, c. £7 million in fee income next year.

Priorities for the year ahead

In Europe, we will maintain our rigorous investment approach, focusing our activity in the core infrastructure and PPP project markets in Europe, building on our market-leading track record of returns.

We will continue to work with the management teams of the portfolio to improve operational performance and deliver value over the long term.

We aim to increase AUM through future capital raisings for 3iN, as appropriate, and through targeted private fund raisings, principally focused on PPP investments.

In India, we will focus on managing the existing portfolio to maximise value in the realisation phase.

Table 10 Assets under management

	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2014	% invested at March 2014	Gross money multiple ¹ at March 2014	AUM	Fee income received in the year £m
3iN	March 2007	£1,072m ²	£366m ³	n/a	n/a	n/a	£1,084m	16
India Fund	March 2008	US\$1,195m	US\$250m	\$38m	73%	0.7x	\$689m ⁴	6
BIF	May 2008	£680m	n/a	n/a	88%	n/a	£604m	1
BEIF	July 2006	£280m	n/a	n/a	93%	1.1x	£100m	1
Other	various	various	various	n/a	n/a	n/a	£102m	–
Total Infrastructure AUM							£2,294m	24

1. Gross money multiple is the cash returned to the fund plus value as at 31 March 2014, as a multiple of cash invested.

2. Based on latest published NAV (ex-dividend).

3. 3i Group's proportion of latest published NAV.

4. Adjusted to reflect 3i Infrastructure plc's US\$250 million share of the Fund.

Infrastructure performance

Case study

Acquisition of Barclays' Infrastructure Fund Management business

In November 2013, 3i completed the acquisition from Barclays of its infrastructure fund management business

The business currently manages two active unlisted funds that invest in UK and European PPP and energy projects, with assets under management of over £700 million. The acquisition has broadened the capabilities and expertise of 3i's infrastructure investment team, expanding its access to the growing PPP and low-risk energy project market across Europe.

The 21-strong team, based at 3i's offices in London and Paris, was incorporated into 3i's existing investment business. Since joining 3i, the team has been working seamlessly with the core infrastructure investment team, completing two new investments in UK and European primary PPP projects for 3i Infrastructure plc: in the Dutch National Military Museum and the Mersey Gateway Bridge.

The completion of this strategic acquisition was a significant milestone in the implementation of 3i's strategy. It demonstrated our commitment to the growth of our infrastructure business and reaffirmed our objective to increase third-party fee income by growing assets under management.

We intend to leverage our enhanced infrastructure investment platform to continue to bring incremental deal flow to 3i Infrastructure plc and, over time, raise new funds dedicated to investing in PPP and low-risk energy projects across developed markets.

More information can be found at www.3i.com

Image removed

Debt Management performance

Business lines

Image removed

Jeremy Ghose

Managing Partner and CEO, 3i Debt Management

“Successful CLO fund launches, as well as continued strong track records in both Europe and the US, position the business for further growth”

Introduction

3i's Debt Management business employs 29 investment professionals focused on managing funds that invest in corporate debt in both Europe and North America

As at 31 March 2014, the Debt Management business managed 28 funds principally being Collateralised Loan Obligations (CLOs). Assets under management at 31 March 2014 were £6.5 billion (2013: £6.4 billion) and the increase primarily reflects the raising of four CLOs during the year including our first in Europe since the establishment of the business in 2011. This AUM growth was offset by reductions in older funds as they passed their re-investment period and capital was distributed to investors. The value of 3i's Proprietary Capital invested in the Debt Management portfolio at 31 March 2014 was £143 million (2013: £81 million).

Gross investment return in the period of £16 million or 20% of the opening portfolio (2013: £14 million or 33%) was good and reflected the strong performance of the funds and a consequent increase in both the valuation of our holdings and cash income in the year.

The level of investment activity increased as 3i invested in three of the four CLOs raised and also provided capital to establish warehouse facilities in order to build up portfolios of assets ahead of future fund raises. £61 million was invested in the year (2013: £23 million).

Debt Management business model

3i's Debt Management business is focused on raising and managing corporate debt funds in Europe and North America

Originate	Monitor	Grow	Fee income and portfolio return
Access investment opportunities through relationships with primary debt providers and private equity sponsors in Europe and North America	In-depth credit analysis of opportunities and close monitoring of existing portfolio by sector specialists	Growing AUM on the back of a strong investment track record	Generate fees on third-party capital and investment return on 3i's investment alongside third parties

The key element of return is the fund management income and profit through careful management of costs. As the value of the portfolio increases through further investment into new funds raised, the gross investment return will remain a key component of overall returns.

Debt Management performance

Investment and realisations activity

In 2013 the European CLO market re-opened, supported by increased economic confidence and increased private equity deal flow at the larger end of the market. During 2013 20 European CLOs were raised with a value of €7.4 billion while no CLOs were raised in 2012. The US CLO market continued to build on its momentum from 2012 during the first half of 2013 with record quarterly levels of CLO issuance seen in the second quarter. Increasing concerns about future US regulation (particularly the Volcker Rule) dampened activity in the second half however issuance in early 2014 was at strong levels following the announcement by the Federal Reserve that banks will be given until July 2017 to comply with the Volcker Rule.

The Debt Management business closed two European CLOs in the period and 3i invested £34 million into these launches alongside third-party investors. There were two CLO launches in the US, into which 3i invested £6 million. In addition 3i has committed £80 million to create warehouse facilities in both the US and Europe to support the creation of portfolios ahead of future fund launches. During the year, £21 million was invested into these facilities.

Table 11 provides details of the investments made in the year.

Following a successful close and a period of good trading the decision was taken to sell our equity holding in Jamestown I. This generated proceeds of £5.5 million, and crystallised a small realised profit.

Table 11 Debt Management investment in the year to 31 March 2014

Investment	Type	Business description	Date	Proprietary Capital investment £m
Harvest VIII	New	European senior debt CLO	March 2014	18
Jamestown III	New	North American senior debt CLO	December 2013	6
Harvest VII	New	European senior debt CLO	September 2013	16
European and US warehouses	New	Pre-CLO portfolio accumulation vehicles	n/a	21
Total				61

Gross investment return

The portfolio generated a gross investment return of £16 million, or 20% of the opening portfolio (2013: £14 million or 33%).

A small realised gain was recognised on the sale of our equity holding in Jamestown I.

Unrealised gains of £10 million reflect uplifts in the mark-to-market valuations of the equity stakes in our CLOs as well as the valuation movement of our holding in the Credit Opportunities Fund (Palace Street I) and the warehouse vehicles used to launch CLOs.

Yield is generated from the Debt Management portfolio both from distributions on our equity held in the CLOs and Palace Street I (£10 million) and interest received on our warehouse vehicles (£4 million).

Foreign exchange movements reflect the strengthening of sterling in the year as most of our portfolio is denominated either in US dollars or euros.

Further portfolio analysis can be found on 3i's website www.3i.com

Table 12 Gross investment return for the year to 31 March

	2014 £m	2013 £m
Realised profits over value on the disposal of investments	–	–
Unrealised profits on the revaluation of investments	10	5
Portfolio income		
Dividends	10	6
Income from loans and receivables	4	1
Fees (payable)	(2)	–
	22	12
Foreign exchange on investments ¹	(6)	2
Gross investment return¹	16	14

¹ Following a change in presentation to align to strategy foreign exchange revaluation movements on the portfolio are now shown as part of the gross investment return. Comparatives have been restated accordingly

Fund Management activity

AUM increased to £6 485 million at 31 March 2014 (2013 £6,440 million) as a result of the launch of two CLOs in Europe and two in North America. This was largely offset by the reduction in AUM in several of the CLOs that are now past their re-investment period and making distributions to investors and foreign exchange.

Table 13 on page 38 details the current Debt Management AUM.

Fee income from third parties increased to £32 million in the year (2013 £31 million) as AUM grew and we had the benefit of a full year of fees from acquisitions made in FY2013. Of this, 78% was generated in Europe and 22% in the US.

In the year ended 31 March 2013 catch-up fees relating to earlier periods of £6 million were received in relation to improved fund performance as accrued subordinated fees became payable once funds had met their performance hurdles. In the year ended 31 March 2014 no such fees were received. Therefore excluding catch-up fees, fee income has increased by £7 million in the year.

CLO fees remain the core of the business and accounted for 81% of the total fees received in the year (2013 79%). The active CLO markets in both Europe and the US as discussed above are therefore important.

Priorities for the year ahead

We continue to manage the existing funds to maintain our strong track record of returns ensuring we remain a preferred manager of corporate debt funds.

We will prioritise further CLO launches in both Europe and the US in order to replace maturing AUM and increase our investment potential.

We will maintain a focus on costs to ensure fees exceed operating expenses.

We will consider further inorganic growth opportunities, or diversification, where fee income from acquired management contracts or platforms would be incrementally profitable.

Debt Management performance

Table 13 Assets under management

	Closing date	Reinvestment period end	Maturity date	Par value of fund at launch ¹	Realised equity money multiple ²	AUM	Annualised equity cash yield ^{3,4,5}	Fees received in the year £m
European CLO funds								
Harvest CLO VIII	Mar-14	Apr-18	Apr-26	€425m	n/a	€425m	n/a	–
Harvest CLO VII	Sep-13	Oct-17	Oct-25	€310m	n/a	€301m	n/a	0.7
Windmill CLO I	Oct-07	Dec-14	Dec-29	€500m	0.7x	€479m	6.9%	1.7
Axius CLO	Oct-07	Nov-13	Nov-23	€350m	0.4x	€319m	5.0%	1.0
Coniston CLO	Aug-07	Jun-13	Jul-24	€409m	0.7x	€350m	11.8%	1.7
Harvest CLO V	Apr-07	May-14	May-24	€632m	0.4x	€590m	6.4%	3.7
Garda CLO	Feb-07	Apr-13	Apr-22	€358m	1.0x	€291m	14.3%	1.7
Harvest CLO IV	Jun-06	Jul-13	Jul-21	€750m	0.9x	€668m	12.1%	2.4
Harvest CLO III	Apr-06	Jun-13	Jun-21	€650m	0.8x	€550m	10.3%	3.3
Harvest CLO II	Apr-05	May-12	May-20	€540m	1.2x	€323m	13.6%	2.4
Alzette CLO	Dec-04	Dec-10	Dec-20	€362m	0.7x	€86m	7.2%	0.8
Petrusse CLO	Jun-04	Sep-09	Dec-17	€295m	0.4x	€41m	4.3%	0.1
Harvest CLO I	Apr-04	Mar-09	Mar-17	€514m	0.7x	€89m	7.0%	0.2
						£3,741m	Average 8.9%	
US CLO funds								
COA Summit	Mar-14	Apr-15	Apr-23	US\$416m	n/a	US\$401m	n/a	–
Jamestown CLO III	Dec-13	Jan-18	Jan-26	US\$516m	n/a	US\$499m	n/a	0.4
Jamestown CLO II	Feb-13	Jan-17	Jan-25	US\$510m	0.2x	US\$503m	18.2%	1.7
Jamestown CLO I	Nov-12	Nov-16	Nov-24	US\$461m	0.2x	US\$454m	18.8%	1.4
Fraser Sullivan CLO VII	Apr-12	Apr-15	Apr-23	US\$459m	0.4x	US\$454m	21.3%	n/a
Fraser Sullivan CLO VI	Nov-11	Nov-14	Nov-22	US\$409m	0.4x	US\$403m	17.5%	n/a
COA Caerus CLO	Dec-07	Jan-15	Dec-19	US\$240m	1.4x	US\$242m	24.0%	n/a
Fraser Sullivan CLO II	Dec-06	Dec-12	Dec-20	US\$500m	1.7x	US\$323m	22.9%	1.6
Fraser Sullivan CLO I	Mar-06	Mar-12	Mar-20	US\$500m	1.5x	US\$221m	19.3%	1.2
						£2,104m	Average 20.3%	
Other funds								
Vintage II	Nov-11	Sept-13	n/a	US\$400m	n/a	US\$235m	1.4x	1.1
Palace Street I	Aug-11	n/a	n/a	n/a	n/a	€50m	11.1%	n/a
Senior Loan Fund	Jul-09	n/a	n/a	n/a	n/a	US\$79m	9.1%	0.2
COA Fund	Nov-07	n/a	n/a	n/a	n/a	US\$38m ⁶	(1.5)%	0.8
Vintage I	Mar-07	Mar-09	Jan-22	€500m	5.0x	€333m	5.1x ⁴	3.6
Friday Street	Aug-06	Aug-08	Aug-14	€300m	0.3x	€62m	3.2%	0.3
European Warehouse vehicles	n/a	n/a	n/a	n/a	n/a	€35m	n/a	n/a
US Warehouse vehicles	n/a	n/a	n/a	n/a	n/a	US\$50m	n/a	n/a
						£640m ⁶		
Total						£6,485m		

1 Includes par value of assets and principal cash amount

2 Multiple of total equity distributions over par value of equity at launch

3 Average annualised returns since inception of CLOs calculated as annualised cash distributions over par value of equity. Excludes unrealised equity remaining in CLO

4 Vintage I & II returns is shown as gross money multiple which is cash returned to the Fund plus value as at 31 March 2014 as a multiple of cash invested

5 The annualised returns for the COA Fund and Senior Loan Fund are the annualised net returns of the Funds since inception

6 The COA Fund AUM excludes the market value of investments the fund has made in 3i Debt Management US CLO funds (US\$173 million as at 31 March 2014)

Case study

Harvest CLO VII

Harvest CLO VII was the first new CLO in the Harvest series launched post the global financial crisis and since 3i's ownership. It was also among the first post crisis European CLOs (so called CLO 2.0). CLOs buy corporate loans using securitisation techniques.

3i Debt Management teamed up with Resource Capital Markets (a subsidiary of Resource America) to underwrite the equity tranche which provided a high level of certainty of execution.

A total of €310 million was raised in a range of rated notes from a variety of investors after 3i Debt Management was able to demonstrate necessary access to credit markets and the ability to manage the resultant portfolio.

Successfully concluding Harvest CLO VII showed the ability of 3i Group to raise third-party capital. The equity investment is projected to deliver double digit returns and managing the portfolio will also generate attractive long-term annual management fees.

Harvest VII closed in September 2013 and has been followed by the larger €425 million Harvest CLO VIII which closed in March 2014.

Altogether this brings the total of funds raised by 3i to US\$2.8 billion from CLOs in the last 18 months.

More information can be found at www.3i.com

Image removed

Financial review

Basis

Since the adoption of IFRS by the Group in the year ended 31 March 2006 there has been discussion about whether investment companies such as 3i, should be exempt from consolidation for its portfolio investments. The introduction of the accounting standard, IFRS 10, has resolved this point with the introduction of an investment entity exception which is an excellent outcome as consolidation of our portfolio investments would both be impractical and limit the usefulness of our statutory accounts. We have therefore decided to adopt this standard early to benefit from the exception. However, the detailed application of the standard has reduced the transparency of the Group's underlying operating performance because we are now required to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach applied at the intermediate holding company level effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies. As a result we have introduced separate Investment basis Statements of comprehensive income, financial position and cash flow for the first time to aid users of our report. The numbers presented in the Overview and Strategic report refer to this Investment basis. A more detailed discussion of the impact of IFRS 10 is included on page 53.

The commentary in this section refers to the Investment basis financial statements because we believe they provide a more understandable view of our performance. On pages 54 to 57, we have presented a reconciliation of our Investment basis financial statements to the audited IFRS statements which are presented in full from page 103 onwards. Total return and net assets are equal under each basis: the Investment basis is simply a "look through" of IFRS 10 to present the underlying investment performance.

We have also taken the opportunity to align our Investment basis total return statement more closely to how the business is managed on a day-to-day basis. Specifically following the reduction in foreign exchange hedging and, instead, the consideration of foreign currency risks as part of the investment process, we have included net foreign exchange movements relating to the portfolio in a new subtotal, gross investment return, as the key measure of investment performance. The previous measure, gross portfolio return, excluded net foreign exchange movements. We have also separately analysed the impact of acquisition accounting as Acquisition related earn-out charges, which was previously included in carry payable.

Table 14 Total return for the year to 31 March

	2014 £m	2013 £m
Investment basis		
Realised profits over value on disposal of investments	202	190
Unrealised profits on revaluation of investments	475	253
Portfolio income		
Dividends	44	46
Income from loans and receivables	50	53
Fees receivable	7	4
Foreign exchange on investments	(113)	52
Gross investment return	665	598
Fees receivable from external funds	73	71
Operating expenses	(136)	(170)
Interest receivable	3	6
Interest payable	(54)	(101)
Movement in the fair value of derivatives	10	(6)
Exchange movements	(3)	(22)
Other (loss)/income	–	(3)
Carried interest receivable from external funds	3	4
Carried interest and performance fees payable	(85)	(12)
Acquisition related earn-out charges	(6)	(7)
Operating profit	470	358
Income taxes	(3)	(6)
Re-measurements of defined benefit plans	11	21
Total comprehensive income (Total return)	478	373
Total return on opening shareholders' funds	16.3%	14.2%

Operating profit includes gross investment return management fee income generated from managing external funds the costs of running our business net interest payable movements in the fair value of derivatives other losses and carried interest receivable or payable Finally total return comprises operating profit less any tax charge and movement in the actuarial valuation of the historic defined benefit pension scheme

Each of these aspects of our returns is considered in greater detail in this review

The Group generated a total return of £478 million, or a profit on opening shareholders' funds of 16.3% (2013: £373 million or 14.2%). This reflects further progress and achievement in the implementation of our strategic priorities, with good realisations at strong uplifts to opening value, an improvement in our cost and income balance, and a further reduction in gross debt. However continuing strength in sterling had a negative impact on the results for the year in respect of foreign exchange translation.

The operating profits of the Proprietary Capital and Fund Management business are analysed on pages 42 to 46 and the remaining items that contribute to total return on page 47.

Total operating expenses

Operating expenses of the Group were £136 million in the year (2013: £170 million) and included restructuring costs of £9 million (2013: £30 million) in respect of redundancy, office closures and organisational changes. Operating expenses as a percentage of weighted average AUM decreased to 1.0% (2013: 1.3%) as a result of the further reduction in like-for-like costs combined with the BIFM acquisition and new CLO fund launches in the year which increased the cost efficiency of the Group (excluding restructuring costs).

We achieved annualised like-for-like run-rate operating cost savings of £70 million at 31 March 2014 against our run-rate of £185 million at 31 March 2012. This represents a reduction of 38% and exceeds our revised target to achieve cost savings of £60 million by 31 March 2014. Of this total, £19 million of run-rate savings were achieved during the year ended 31 March 2014.

The main savings in operating costs since 31 March 2012 have come from headcount reductions, with average headcount of 277 in 2014 compared to 358 in the prior year. The majority of the staff changes were implemented in the year ended 31 March 2013. As at 31 March 2014, headcount was 266 compared to 282 at 31 March 2013 and 435 at 31 March 2012. The addition of 21 staff as a result of the BIFM acquisition was offset by a net reduction of 37 staff across the remainder of the Group during the year. The next most significant saving related to property costs, as a direct consequence of headcount changes.

Restructuring costs of £9 million were incurred during the year in order to effect further changes to staff, offices and other cost savings. This total was higher than the £7 million originally estimated, reflecting the costs of reducing the level of resource applied to Brazil and, in particular, the severance costs of the team, which were not anticipated in the original target. However the ratio of run-rate cost savings to restructuring costs is better than originally targeted, with £70 million of run-rate cost savings achieved at a cost of £39 million, representing a 1.8x ratio compared with the original target of £45 million savings and £30 million restructuring costs (1.5x).

The cost reduction initiatives outlined in the strategic announcement in June 2012 are largely complete and we will no longer report operating expenses on a run-rate basis as we expect it to converge and to be in line with the actuals in all material respects.

Table 15 Operating expenses for the year to 31 March

	2014 £m	2013 £m
Operating expenses	136	170
Operating expenses excluding restructuring costs	127	140
Operating expenses/AUM ¹ (excluding restructuring costs)	1.0%	1.3%
Run-rate operating expenses at 31 March	129	140
Run-rate operating expenses/AUM ¹	1.0%	1.1%

¹ Actual operating expenses measured as a percentage of weighted average AUM. Run-rate operating expenses measured as a percentage of closing AUM.

Financial review

Annual operating cash profit

Table 16 Annual operating cash profit for the year to 31 March

	2014 £m	2013 £m
Third-party capital fees	75	70
Cash portfolio fees	4	4
Cash portfolio dividends and interest	53	58
Cash income	132	132
Operating expenses ¹	136	170
Less Restructuring costs	(9)	(30)
	127	140
Annual operating cash profit/(loss)	5	(8)

1 Operating expenses include accruals the effect of which is not considered material

In June 2012 the Group set an objective of generating cash income from third-party fees and portfolio income sufficient to cover the operating expenses incurred in the year prior to restructuring costs. We call this 'annual operating cash profit'.

The annual operating cash profit position improved from a loss of £(8) million in the year to 31 March 2013 to a profit of £5 million in the year to 31 March 2014. This is the first year the Group achieved an operating cash profit in more than a decade. This is a significant step in improving the profitability of the Group's operating model.

Third-party AUM increased during the year following the acquisition of BIFM and the launch of four Debt Management funds. The growth in third-party AUM and a focus on generating cash income from the portfolio, has meant the Group has been able to maintain its cash income despite net divestment activity in Private Equity. Cash income was stable at £132 million (2013: £132 million), with a £5 million increase in third-party fees and a £5 million decrease in portfolio income.

The benefits of the cost reduction programme are now being seen with actual costs (excluding restructuring costs) incurred during the year of £127 million (2013: £140 million) including £6 million of additional costs relating to acquisitions. The cost reduction programme has delivered £70 million of run-rate operating cost savings from the initial £185 million cost base, a reduction of 38% before adding costs relating to acquired businesses.

Proprietary Capital returns

Our Proprietary Capital business is assessed on operating profit before carry, which comprises gross investment return, operating expenses, a fee paid to the Fund Management business and balance sheet funding expenses such as interest payable. Overall operating profit before carry of £539 million (2013: £386 million) was £153 million higher than the prior year and this was underpinned by strong gross investment return and a reduction in costs.

By business line, the gross investment return on the opening portfolio was 24% from Private Equity (2013: 21%), 0% from Infrastructure (2013: 4%) and 20% from Debt Management (2013: 33%). Private Equity accounts for 82% of the Proprietary Capital portfolio at 31 March 2014 (2013: 83%) and remains the primary driver of performance for the Proprietary Capital segment. Business line performance is discussed in more detail on pages 23 to 39.

Realised profits

Realised profits at £202 million in the year to 31 March 2014 (2013: £190 million) demonstrated a second consecutive year of strong exits and were achieved at an uplift over opening value of 43% (2013: 46%). We continue to pursue exits through careful exit planning, particularly for our older, smaller and non-core geography assets.

The majority of the realisations were from the Private Equity portfolio, which contributed £669 million of the £677 million proceeds. Table 4 on page 25 details the Private Equity realisations in the period and sets out the accounting uplift reflected in the annual total return and the longer-term cash-to-cash results. The Private Equity realisations completed in the year produced a money multiple of 1.8x over their investment life.

Table 17 Proprietary Capital operating profit for the year to 31 March

	2014 £m	2013 £m
Realised profits over value on disposal of investments	202	190
Unrealised profits on revaluation of investments	475	253
Portfolio income		
Dividends	44	46
Income from loans and receivables	50	53
Fees receivable ¹	4	4
Foreign exchange on investments ²	(113)	52
Gross investment return^{1,2}	662	598
Synthetic fee paid to Fund Management business	(51)	(56)
Operating expenses	(28)	(30)
Interest receivable	3	6
Interest payable	(54)	(101)
Movement in the fair value of derivatives	10	(6)
Exchange movements ²	(3)	(22)
Other (loss)/income	-	(3)
Operating profit before carry	539	386

1 Fees receivable exclude £3 million allocated to Fund Management

2 Following a change in presentation to align to strategy, foreign exchange revaluation movements on the portfolio are being shown as part of the gross investment return. Comparatives have been restated accordingly

Unrealised value movements

Table 18 Unrealised profits/(losses) on revaluation of investments for the year to 31 March

	2014 £m	2013 £m
Private Equity		
Earnings based valuations		
Performance	182	141
Multiple movements	216	36
Other bases		
Provisions	-	4
Uplift to imminent sale	9	24
Discounted Cash Flow	11	(28)
Other movements on unquoted investments	(10)	73
Quoted portfolio	70	-
Infrastructure		
Quoted portfolio	6	11
Discounted Cash Flow	(19)	(13)
Other movements on unquoted valuations	-	-
Debt Management¹	10	5
Total	475	253

1 Debt Management includes value movement on equity stakes in CLO vehicles, direct holdings in warehouse vehicles, and the net asset value movement on Palace Street I. Unrealised profits/(losses) in the year to 31 March 2013 have been restated for the change in treatment of Palace Street I under the investment basis

Financial review

Performance

The performance category measures the impact of earnings and net debt movements for the portfolio companies valued on an earnings basis. In general, when valuing a portfolio investment on an earnings basis, the earnings used in the March valuations are the last 12 months' management accounts data to December, unless the current year forecast indicates a lower maintainable earnings level. Where appropriate, adjustments are made to earnings on a pro forma basis for acquisitions, disposals and non-recurring items. In the case of one company Action, which is experiencing significant growth due to its store roll-out programme, a run-rate adjustment is made to its earnings to reflect profitability of opened stores for valuation purposes.

Improvements in the performance of the portfolio valued on an earnings basis resulted in an increase in value of £182 million (2013: £141 million). Value weighted earnings, the most relevant measure of NAV impact, increased by 19% in the year, demonstrating that the portfolio's largest assets are delivering strong improvements in performance, while net debt in the portfolio reduced marginally to 3.1x (2013: 3.2x).

Multiple movements

Increases in quoted prices for comparable businesses over the year, together with a re-rating of a small number of assets (most notably Action) have led to an increase in the weighted average EBITDA multiple of the portfolio to 10.6x before marketability discount (2013: 8.8x) and 9.9x after marketability discount (2013: 7.9x). Excluding Action, the largest asset by value and the asset with the highest multiple applied to earnings, the weighted average EBITDA multiple of the portfolio has increased to 9.8x before marketability discount (2013: 8.7x) and 9.0x after marketability discount (2013: 7.8x). The increase in the year has generated an increase in value of £216 million (2013: £36 million).

Provisions

A provision is recognised where we anticipate that there is a 50% or greater chance that the Group's investment in the portfolio company will fail within the next 12 months. No new provisions or reversals were made during the year.

Imminent sale

Portfolio companies which are well advanced in a negotiated sales process are valued on an imminent sale basis. At 31 March 2014, while there are a number of ongoing sales processes, only two were sufficiently progressed to value on this basis and the uplift to imminent sale was £9 million (2013: £24 million).

Discounted Cash Flow

The Discounted Cash Flow (DCF) valuation basis is used to value portfolio companies with predictable and stable cash flows. This is typically used for investments in our Infrastructure business, however one significant Private Equity investment, Scandlines, is now valued on a DCF basis as it has a number of similar characteristics to an infrastructure investment. As at 31 March 2014, there were eight portfolio companies valued using the DCF valuation basis, the majority of which relate to the Group's Indian Infrastructure portfolio. Value growth in Scandlines was offset by unrealised losses as a result of the continued challenging environment in India, leading to a net loss on cases valued using DCF models of £(8) million in the year (2013: £(41) million).

Other

Where a different valuation basis is more appropriate for a portfolio company, the 'other' category is used to determine fair value, for example, the sum of the parts of the business or industry specific methods. Unrealised losses of £10 million were incurred in the year to 31 March 2014 (2013: gains of £73 million).

Quoted portfolio

The quoted portfolio was valued at £554 million at 31 March 2014 and now represents 16% (2013: £431 million, 13%) of the Group's total portfolio. The Group's 34% investment in 3i Infrastructure plc represents the majority of the quoted portfolio at £404 million. 3i Infrastructure plc's share price increased by 1% in the year, resulting in value growth of £5 million. The IPO of Quintiles was completed in May 2013 and following sales of the Group's holding in the business, the value of Quintiles at 31 March 2014 was £122 million. The total investment return from Quintiles in the period including realised profits, unrealised profits and income was £87 million. The IPO of Phibro was completed after the end of the period. At 31 March 2014 this continued to be valued on an earnings basis so is not included in the quoted portfolio.

Table 19 Proportion of portfolio value by valuation basis as at 31 March

	2014 %	2013 %
Earnings	65	67
Imminent sale	1	2
Quoted	16	13
Discounted Cash Flow	8	7
Other	6	9
Debt Management	4	2

Debt Management

The Debt Management business line has investments in a number of the CLOs which the Group manages, as well as in the Credit Opportunities Fund, Palace Street I and the 3i Senior Loan Fund. The Group also invests in Warehouse facilities to support the creation of portfolios for future fund launches.

The CLOs are valued on the basis, where possible, of quotes from the arranging brokers, substantiated by internal modelling of the future returns of the investment and third-party databases of prices. At 31 March 2014 the value of the equity stakes in CLOs was £67 million (2013: £26 million). Warehouse facilities are valued directly on the mark-to-market of the underlying debt held, and at 31 March 2014 these totalled £17 million (2013: £nil). The NAV of Palace Street I at 31 March 2014 was £53 million (2013: £48 million) and the value of the equity held in the US Senior Loan Fund was £6 million (2013: £7 million).

Portfolio income

Table 20 Portfolio income for the year to 31 March

	2014 £m	2013 £m
Dividends	44	46
Income from loans and receivables	50	53
Net fees receivable	7	4
Portfolio income	101	103
Received as cash	57	62
Cash income/opening portfolio	1.7%	1.9%

Income from the portfolio was £101 million in the year to 31 March 2014 (2013: £103 million). Dividends of £44 million were received (2013: £46 million) including £21 million from 3i Infrastructure plc, £5 million from Phibro, a US Private Equity healthcare investment, and £8 million from Debt Management investments. Interest income totalled £50 million (2013: £53 million).

A further £7 million in net deal fees was received in the year (2013: £4 million), principally relating to fees received on completing new investments and annual monitoring fees paid by portfolio companies. Of the total £4 million was allocated to the Proprietary Capital business and £3 million to the Fund Management business, in line with the split of investment between proprietary capital and third-party funds.

Portfolio income received as cash during the year was £57 million (2013: £62 million).

Net foreign exchange movements

The total net foreign exchange loss of £116 million (2013: £30 million gain) was driven by the strengthening of sterling against the euro (1.9%), US dollar (8.8%), Indian rupee (17.3%), Brazilian real (18.8%) and Swedish krona (8.4%) resulting in losses of £17 million, £61 million, £14 million, £8 million and £8 million respectively. The net foreign exchange loss also reflects the translation of non-portfolio net assets, including non-sterling cash held at the balance sheet date.

As at 31 March 2014, a 1% movement in the euro, US dollar and the rupee would give rise to a £13 million, £6 million and £1 million movement in total return respectively.

Proprietary Capital costs

Synthetic fees are included in the operating profit of the Proprietary Capital business to reflect the fees that this business would have to pay if the assets were managed externally at market rates. The fall in synthetic fees to £51 million (2013: £56 million) reflects the lower level of Proprietary Capital being managed as a result of net divestment during the period.

A proportion of the Group's total operating expenses is allocated to Proprietary Capital, being those costs assessed as having been incurred in running a listed investment trust. These include 100% of costs in relation to the CEO and Group Finance Director and elements of finance, IT, property and compliance. Operating expenses of £28 million were broadly flat compared to last year (2013: £30 million) as the substantial cost reductions in the Proprietary Capital business, made as part of the cost reduction programme, were implemented early in FY2013. A more detailed analysis of the Group's total operating expenses is provided on page 41.

Net interest payable

Gross interest payable for the year was £54 million (2013: £101 million), 10% below the target of £60 million. During the year we further reduced gross debt, repaying £164 million of drawings under a revolving credit facility. The current gross debt position is detailed further on page 49 and in Note 21.

Interest receivable reduced to £3 million (2013: £6 million) in the year, as a result of the lower level of cash and deposits held by the Group and lower levels of interest received on that cash.

Derivative movements

The Group historically used foreign exchange and interest rate derivative contracts as part of its hedging programmes. The £10 million gain recognised from the fair value movement of the derivatives during the year (2013: £6 million loss) principally related to a long-term legacy interest rate swap which has now been closed out.

Consistent with the strategic focus on cash-to-cash returns, the residual foreign exchange derivatives will be closed out early if appropriate, depending on the balance of currency cash flows, or else allowed to expire and not be replaced. We will continue to consider foreign exchange risk at the point of investment and divestment and occasionally hedge these transactions with short-term derivatives.

Financial review

Fund Management returns

Table 21 Fund Management operating profit
for the year to 31 March

	2014 £m	2013 £m
Portfolio fee income	3	–
Fees receivable from external funds	73	71
Synthetic fee receivable from Proprietary Capital business	51	56
Operating expenses	(108)	(140)
Operating profit before carry	19	(13)
Restructuring costs	8	24
Amortisation costs	6	6
Underlying Fund Management profit	33	17

Our Fund Management business comprises the investment teams of our Private Equity, Infrastructure and Debt Management businesses

It is assessed on operating profit before carry which comprises fee income from third parties as well as a synthetic fee received from the Proprietary Capital business, less operating expenses. Overall operating profit before carry of £19 million for the period was £32 million higher than the prior year, as fee income remained stable and the benefits of the cost reduction programme became apparent.

The Group's Fund Management income is driven by total assets under management ('AUM') which were £12.9 billion at 31 March 2014 (2013: £12.9 billion). The acquisition of BIFM and the launch of four Debt Management funds offset a fall in AUM from the net divestment activity in Private Equity. The proportion of third-party assets under management grew to 74% from 71% during the year.

For the Fund Management business to be profitable costs have to be managed closely to ensure they remain appropriate and consistent with third-party benchmarks where available. The positive impact of the cost reduction programme initiated in June 2012 is now clear. Fund Management operating expenses fell by 23% in the period to £108 million (2013: £140 million), including £8 million of restructuring costs (2013: £24 million) and the addition of £6 million of costs relating to acquisitions in the period.

Consequently, Fund Management improved both its absolute profit and profit margin in the period. Fund Management operating profit at £19 million represented a margin of 15% (2013: £13 million loss and (10)%). On an underlying basis excluding restructuring and amortisation costs, operating profit was £33 million (2013: £17 million) at a margin of 26% (2013: 13%).

Fees receivable from external funds

Fees earned from external funds of £73 million in the period were marginally higher than the prior year (2013: £71 million).

Our Debt Management business line continued to generate strong fund fee income of £32 million in line with the prior year (2013: £31 million). In the year ended 31 March 2013, catch-up fees relating to earlier periods of £6 million were received in relation to improved fund performance, as accrued subordinated fees became payable once funds had met their performance hurdles. In the year ended 31 March 2014, no such fees were received. Therefore, on a like-for-like basis, fee income has increased by £7 million in the year underpinned by the launch of four new funds.

Advisory and management services to 3i Infrastructure plc and the 3i India Infrastructure Fund generated £22 million of fee income in the year (2013: £21 million). The acquisition of the BIFM platform further supplemented fee income from the Infrastructure business line by £2 million.

Our managed Private Equity funds generated fee income of £17 million (2013: £19 million), the decline reflecting the full year impact of the Growth Capital Fund coming to the end of its investment period in December 2012 and net divestment activity.

Fees receivable from Proprietary Capital

A synthetic fee is included in the operating profit of the Fund Management business to reflect the fees that would be received on proprietary investments if managed on behalf of third parties at market rates. A fee of 1.5% is charged on Private Equity and Infrastructure Proprietary Capital and 0.5% on Debt Management. The fall in synthetic fees to £51 million (2013: £56 million) reflects the lower level of Proprietary Capital being managed as a result of net divestment in Private Equity during the period.

Fund Management costs

A proportion of the Group's total operating expenses is allocated to the Fund Management activity. This includes all costs in relation to investment management and advisory activity as well as an allocation in relation to direct and indirect support functions such as finance, IT, human resources, compliance and property costs. Fund Management operating expenses fell by 23% in the period to £108 million (2013: £140 million). A more detailed analysis of the Group's total operating expenses is provided on page 41.

Total return

Table 22 Total return for the year to 31 March

	2014 £m	2013 £m
Proprietary Capital operating profit before carry	539	386
Fund Management operating profit before carry	19	(13)
Operating profit before carry	558	373
Carried interest receivable from external funds	3	4
Carried interest and performance fees payable	(85)	(12)
Acquisition related earn-out charges	(6)	(7)
Operating profit	470	358
Tax	(3)	(6)
Re-measurement of defined benefit plans	11	21
Total comprehensive income ('Total return')	478	373
Total return on opening shareholders' funds	16.3%	14.2%

The Group's total return comprises the operating profit of both the Proprietary Capital and Fund Management businesses, net carried interest, tax and charges relating to defined benefit pension schemes.

Net carried interest and performance fees payable

Net carried interest and performance fees payable in the year increased in line with the improved portfolio performance and realisations, with a net payable of £82 million (2013: £8 million payable).

Carried interest and performance fees are accrued on the realised and unrealised profits generated, taking relevant performance hurdles into consideration, assuming all investments were realised at the prevailing book value. Carry is only actually paid or received when the relevant performance hurdles are met, and the accrual is discounted to reflect expected payment periods.

Carry receivable is generated on third-party capital over the life of the relevant fund when relevant performance criteria are met.

Our largest Private Equity fund, Eurofund V, which includes assets purchased in 2007–12, has not yet met the performance hurdle due to the weak performance of the 2007–09 vintages. Although we have seen a strong recovery in that fund's multiple to 1.13x invested capital, the drag from these earlier investments means that we have not yet recognised carry receivable from this fund.

We pay carry to our investment teams on proprietary capital invested and share a proportion of carry receivable from third-party funds. This total carry payable is provided through schemes which have been structured historically over two year vintages to maximise flexibility in resource planning.

The improved performance of the portfolio over the last two years means that the majority of assets by value are now held in carry payable schemes that have met their performance hurdles, assuming the portfolio was realised at its 31 March 2014 valuation. Of the accrual of £85 million, £18 million relates to the catch up in accrual on schemes that hit the hurdle this year. Hereafter, carry payable will increase or decrease broadly in line with the performance of the portfolio at rates of between 10% and 15%.

Pensions

The IAS 19 valuation of the Group's UK defined benefit pension scheme was positively impacted by an increase in the discount rate, driven by an increase in AA corporate bond yields, and a decrease in inflation rates, resulting in a decrease in the value of the scheme's liabilities. This resulted in a re-measurement gain of £11 million (2013: £21 million) for the year.

The 2013 triennial valuation was completed in March 2014. It resulted in a very small surplus and consequently no further contributions were made or are planned as a result of this valuation.

Financial review

Balance sheet

Portfolio value

Table 23 Portfolio value movement by business line

Business lines	Opening portfolio value 1 April 2013 £m	Investment ¹ £m	Value disposed £m	Unrealised value movement £m	Other Movement ² £m	Closing portfolio value 31 March 2014 £m
Private Equity	2 707	443	(467)	478	(226)	2 935
Debt Management	81	61	(6)	10	(3)	143
Infrastructure	507	–	(1)	(13)	(6)	487
Total	3,295	504	(474)	475	(235)	3,565

1 Includes capitalised interest and other non-cash investment

2 Other relates to foreign exchange and the provisioning of capitalised interest

Strong realisations in the year and the negative impact of foreign exchange movements were offset by investment of £504 million and unrealised value growth of £475 million resulting in an increase in the total Proprietary Capital portfolio value to £3,565 million at 31 March 2014 (2013 £3 295 million)

The weighting of Private Equity in the portfolio reduced marginally to 82% (2013 83%) while Debt Management increased to 4% (2013 2%). This reflects both the net divestment in Private Equity and the increase in funding of the Debt Management business to purchase equity stakes of CLOs launched in the year. The weighting of the Infrastructure portfolio remained relatively stable at 14% (2013 15%).

Cash flow

Investments and realisations

Table 24 Investment activity – Proprietary Capital and third-party capital for the year to 31 March

	Proprietary Capital		Proprietary and third-party capital	
	2014 £m	2013 £m	2014 £m	2013 £m
Realisations	677	606	1 129	792
Cash investment	(337)	(149)	(517)	(240)
Net cash divestment/(investment)	340	457	612	552
Non-cash investment	(167)	(113)	(279)	(186)
Net divestment/(investment)	173	344	333	366

Realisations in the year generated cash proceeds of £677 million (2013 £606 million) offset by cash investment of £337 million (2013 £149 million) resulting in net cash inflow of £340 million (2013 £457 million). A further £167 million of investment was in non-cash form (2013 £113 million) and total investment was £504 million (2013 £262 million).

A summary of Proprietary Capital investment and realisations by business line is provided below. Further detail on investment and realisations is included in the relevant business line sections of this report on pages 23 to 39.

Table 25 Proprietary Capital investment by business line
for the year to 31 March

	2014 £m	2013 £m
Private Equity	443	234
of which non-cash	167	113
Infrastructure	–	5
of which non-cash	–	–
Debt Management	61	23
of which non-cash	–	–
Total gross investment	504	262

Table 26 Proprietary Capital realisations by business line
for the year to 31 March

	2014 £m	2013 £m
Private Equity	669	575
Infrastructure	2	31
Debt Management	6	–
Total gross realisations	677	606

Non-investment cash flows

Cash income from third-party fees and the portfolio of £132 million (2013 £132 million) was offset by cash operating expenses of £148 million (2013 £198 million) which, in addition to running costs and restructuring costs, includes carry paid and cash pension costs

Net cash interest of £54 million was paid in the year, significantly below the £111 million paid last year

Gearing and borrowings**Table 27 Gearing and borrowings as at 31 March**

	2014	2013
Gross debt	£857m	£1,081m
Net debt	£160m	£335m
Gearing	5%	11%

The Group further reinforced its conservative balance sheet approach, with gross debt reducing by 21% in the year to £857 million (2013 £1,081 million). A further £164 million drawn under the 2016 revolving credit facility was repaid in April 2013. This was funded by cash from realisation proceeds generated in the prior year.

Net debt reduced following net divestment to £160 million (2013 £335 million). Gearing consequently reduced to 5% at 31 March 2014 (2013 11%) as a result of both the decrease in net debt and the increase in shareholders' funds to £3,308 million (2013 £2,934 million) following the total return of £478 million in the year to 31 March 2014.

Liquidity

Liquidity increased in the year to £1,197 million (2013 £1,082 million). This comprised cash and deposits of £697 million (2013 £746 million) and undrawn facilities of £500 million (2013 £336 million). The cash balance reduced primarily as a result of the repayment of debt in the year with cash inflows from divestment activity being offset by investment and other operating cash flows.

Foreign exchange hedging

As a result of the reduction in gross debt, and the increased concentration of the portfolio into a smaller number of individually significant assets, the Board decided to change its hedging policy in March 2013 and no longer to use derivatives for portfolio hedging purposes. As a result, the use of derivatives to hedge currency movements on a portfolio basis will be reduced over time and foreign exchange risk will now be considered as an integral part of the investment process rather than managed at the Group level. Specific short-term hedging on entry or exit of an investment may be used as appropriate.

Diluted NAV

The diluted NAV per share at 31 March 2014 was 348 pence (2013 311 pence). This was driven by the total return in the year of £478 million (2013 £373 million) and partially offset by dividend payments in the year of £114 million (2013 £76 million).

Investment basis

Statement of comprehensive income

	Total 2014 £m	Total 2013 £m
Realised profits over value on the disposal of investments	202	190
Unrealised profits on the revaluation of investments	475	253
Portfolio income		
Dividends	44	46
Income from loans and receivables	50	53
Fees receivable	7	4
Foreign exchange on investments	(113)	52
Gross investment return	665	598
Fees receivable from external funds	73	71
Operating expenses	(136)	(170)
Interest receivable	3	6
Interest payable	(54)	(101)
Movement in the fair value of derivatives	10	(6)
Exchange movements	(3)	(22)
Other (loss)/income	–	(3)
Operating profit before carry	558	373
Carried interest		
Carried interest receivable from external funds	3	4
Carried interest and performance fees payable	(85)	(12)
Acquisition related earn-out charges	(6)	(7)
Operating profit	470	358
Income taxes	(3)	(6)
Profit for the year	467	352
Other comprehensive income		
Re-measurements of defined benefit plans	11	21
Total comprehensive income for the year (Total return)	478	373

Note

A reconciliation to the audited IFRS financial statements is shown on pages 54 to 57 and the audited IFRS financial statements are shown on pages 103 to 153

Investment basis

Statement of financial position

	2014 £m	2013 £m
Assets		
Non-current assets		
Investments		
Quoted investments	554	431
Unquoted investments	3 011	2 864
Investment portfolio	3,565	3,295
Carried interest receivable	17	20
Intangible assets	26	32
Retirement benefit surplus	137	120
Property plant and equipment	5	7
Derivative financial instruments	–	–
Deferred income taxes	3	3
Total non-current assets	3,753	3,477
Current assets		
Other current assets	92	85
Derivative financial instruments	2	4
Deposits	–	90
Cash and cash equivalents	697	656
Total current assets	791	835
Total assets	4,544	4,312
Liabilities		
Non-current liabilities		
Carried interest and performance fees payable	(106)	(31)
Acquisition related earn-out charges payable	(18)	(22)
Loans and borrowings	(849)	(855)
B shares	(6)	(6)
Retirement benefit deficit	(14)	(14)
Derivative financial instruments	–	(55)
Deferred income taxes	(2)	(3)
Provisions	(5)	(8)
Total non-current liabilities	(1,000)	(994)
Current liabilities		
Trade and other payables	(198)	(178)
Carried interest and performance fees payable	(11)	(29)
Acquisition related earn-out charges payable	(10)	–
Loans and borrowings	–	(164)
Derivative financial instruments	(4)	(5)
Current income taxes	(4)	(2)
Deferred income taxes	(1)	(1)
Provisions	(8)	(5)
Total current liabilities	(236)	(384)
Total liabilities	(1,236)	(1,378)
Net assets	3 308	2,934
Equity		
Issued capital	718	718
Share premium	782	780
Other reserves	1 897	1 540
Own shares	(89)	(104)
Total equity	3,308	2 934

Note

A reconciliation to the audited IFRS financial statements is shown on pages 54 to 57 and the audited IFRS financial statements are shown on pages 103 to 153

Investment basis

Cash flow statement

	2014 €m	2013 €m
Cash flow from operating activities		
Purchase of investments	(337)	(149)
Proceeds from investments	677	606
Cash investment/(divestment) into traded portfolio	14	(23)
Portfolio interest received	9	15
Portfolio dividends received	44	43
Portfolio fees received	4	4
Fees received from external funds	75	70
Carried interest received	5	20
Carried interest and performance fees paid	(25)	(30)
Acquisition related earn-out charges paid	–	(1)
Operating expenses	(128)	(188)
Interest received	3	7
Interest paid	(57)	(118)
Income taxes paid	(7)	(8)
Net cash flow from operating activities	277	248
Cash flow from financing activities		
Purchase of own shares	–	–
Dividend paid	(114)	(76)
Repayment of short-term borrowings	(164)	(304)
Repurchase of long-term borrowings	–	(267)
Net cash flow from derivatives	(32)	11
Net cash flow from financing activities	(310)	(636)
Cash flow from investing activities		
Acquisition of management contracts	2	(18)
Purchase of property plant and equipment	–	(1)
Proceeds on sale of property plant and equipment	–	1
Net cash flow from deposits	90	351
Net cash flow from investing activities	92	333
Change in cash and cash equivalents	59	(55)
Cash and cash equivalents at the start of year	656	718
Effect of exchange rate fluctuations	(18)	(7)
Cash and cash equivalents at the end of year	697	656

Note

A reconciliation to the audited IFRS financial statements is shown on pages 54 to 57 and the audited IFRS financial statements are shown on pages 103 to 153

Reconciliation of Investment basis to IFRS

IFRS 10 has resulted in a significant change to the presentation of the Group's financial statements. There has been no change to the total return or net asset position of the Group.

The Group makes investments directly in portfolio companies held by 3i Group plc and indirectly held through intermediate holding company and partnership structures (Investment entity subsidiaries). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice (Trading subsidiaries).

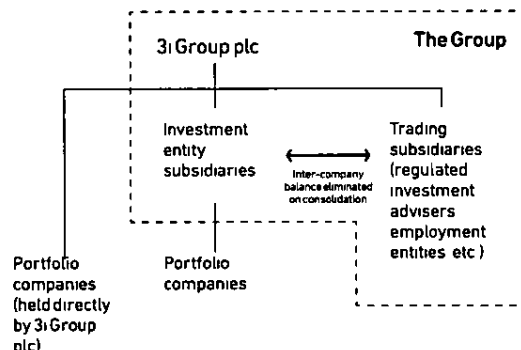
Since the adoption of IFRS in the year ended 31 March 2006 there has been discussion about whether investment companies such as 3i should be exempt from consolidation of its investments (the direct and indirectly held portfolio companies). IFRS 10 has resolved this point with the introduction of an investment entity exception confirming that portfolio companies should be accounted for at fair value, which is an excellent outcome. This is why we have decided to adopt the standard early. However, in the detailed application of the standard, investment entity subsidiaries are now also

accounted for on a fair value basis, which means that the financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest incurred in investment entity subsidiaries are aggregated into a single value shown as Investments in investment entities. Other items which were previously eliminated on consolidation are now included separately. The two diagrams below illustrate these changes, together with an illustrative example to show how information can be aggregated.

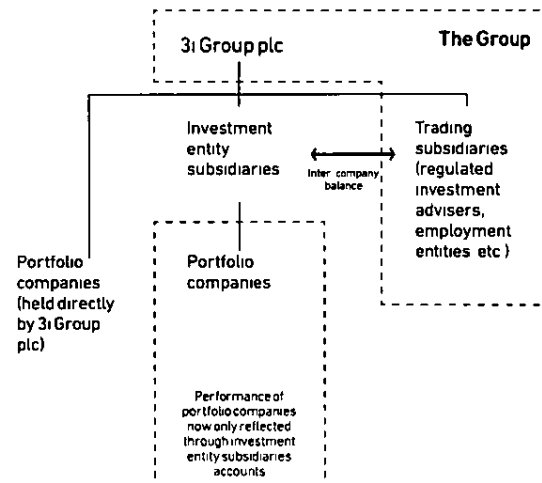
We have therefore introduced an "Investment basis" set of primary financial statements prepared on a similar basis to the prior year financial statements, fair valuing portfolio companies at the level which we believe provides the most understandable financial information and consolidating associated transactions on a line-by-line basis.

A detailed reconciliation from the Investment basis to IFRS basis of the Statement of comprehensive income, Statement of financial position and Cash flow statement is provided on pages 54 to 57. Note 14 to the financial statements provides details of the activity within the investment entity subsidiaries.

Previous basis of consolidation



IFRS 10/new basis of consolidation



Illustrative example

	Previous basis of consolidation	IFRS 10 consolidation
Realised/unrealised investment returns	170	50
Fair value movements on investment entity subsidiaries	–	90
Portfolio income	20	5
Operating expenses	(50)	(10)
Carry payable	(10)	(5)
	130	130

Investment entity subsidiary activity	
Realised/unrealised investment returns	120
Portfolio income	15
Operating expenses	(40)
Carry payable	(5)
	90

Reconciliation of Statement of comprehensive income

	Note	Investment basis 2014 £m	IFRS adjustments 2014 £m	IFRS basis 2014 £m	Investment basis 2013 £m	IFRS adjustments 2013 £m	IFRS basis 2013 £m
Realised profits over value on the disposal of investments	2	202	(56)	146	190	(135)	55
Unrealised profits on the revaluation of investments	2	475	(398)	77	253	(97)	156
Fair value movements on investment entity subsidiaries	16	–	454	454	–	491	491
Portfolio income							
Dividends	2	44	(19)	25	46	(16)	30
Income from loans and receivables	2	50	(21)	29	53	(34)	19
Fees receivable		7	–	7	4	–	4
Foreign exchange on investments	4 5	(113)	68	(45)	52	(38)	14
Gross investment return		665	28	693	598	171	769
Fees receivable from external funds	3	73	(23)	50	71	(27)	44
Operating expenses	3	(136)	18	(118)	(170)	23	(147)
Interest receivable	3	3	(1)	2	6	(1)	5
Interest payable		(54)	–	(54)	(101)	–	(101)
Movement in the fair value of derivatives		10	–	10	(6)	–	(6)
Exchange movements	4 5	(3)	(39)	(42)	(22)	(56)	(78)
Income/(expense) from fair value subsidiaries	1	–	(5)	(5)	–	(109)	(109)
Other (loss)/income		–	–	–	(3)	–	(3)
Operating profit before carry		558	(22)	536	373	1	374
Carried interest							
Carried interest receivable from external funds	3	3	(4)	(1)	4	2	6
Carried interest and performance fees payable	3	(85)	69	(16)	(12)	(5)	(17)
Acquisition related earn-out charges		(6)	6	–	(7)	7	–
Operating profit		470	49	519	358	5	363
Income taxes	3	(3)	1	(2)	(6)	3	(3)
Profit for the year		467	50	517	352	8	360
Other comprehensive income							
Exchange differences on translation of foreign operations	4 5	–	(50)	(50)	–	(8)	(8)
Re-measurements of defined benefit plans	11	–	–	11	21	–	21
Total comprehensive income for the year (Total return)	1	478	–	478	373	–	373

Notes

- Applying IFRS 10 to the Statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item 'Fair value movements on investment entity subsidiaries'. In the 'Investment basis' accounts we have disaggregated these line items to analyse our total return as if these investment entity subsidiaries were fully consolidated consistent with prior periods. The adjustments simply reclassify the Statement of comprehensive income of the Group and the total return is equal under the Investment basis and the IFRS basis.
- Realised profits, unrealised profits and portfolio income shown in the IFRS accounts only relate to portfolio companies that are held directly by 3i Group plc and not those portfolio companies held through investment entity subsidiaries. Realised profits, unrealised profits and portfolio income in relation to portfolio companies held through investment entity subsidiaries are aggregated into the single 'Fair value movement on investment entity subsidiaries' line. This is the most significant reduction of information in our IFRS accounts.
- Other items also aggregated into the 'Fair value movements on investment entity subsidiaries' line include fees receivable from external funds, audit fees, custodian fees, bank charges, other general and administration expenses, carried interest and tax.
- Foreign exchange on investments has been reclassified as a result of IFRS 10. This is because the revaluation of assets held by investment entity subsidiaries will now be reflected in the fair value movements on investment entity subsidiaries rather than being reflected as exchange movements. Exchange differences on translation of foreign operations has reduced given that many foreign operations are now treated as investment entities held at fair value rather than consolidated subsidiaries.
- We have also taken this opportunity to re-present the impact of foreign exchange movements on our returns to be consistent with the current hedging policy. 'Foreign exchange on investments' is now included in our gross investment return to show the currency risk relating to the portfolio more directly.
- The Credit Opportunities Fund (Palace Street I) was previously consolidated on a line-by-line basis and is now recognised as a fair value investment entity subsidiary under IFRS 10. We believe this is the appropriate treatment that effectively shows the performance of the Fund and have applied the same basis to the investment basis statements in a change to previous presentation.

Reconciliation of Statement of financial position

	Note	Investment basis 2014 £m	IFRS adjustments 2014 £m	IFRS basis 2014 £m	Investment basis 2013 £m	IFRS adjustments 2013 £m	IFRS basis 2013 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	554	(296)	258	431	(188)	243
Unquoted investments	1	3 011	(1 732)	1 279	2 864	(1 427)	1 437
Investments in investment entities	13 4	–	1 973	1 973	–	1 630	1 630
Investment portfolio		3 565	(55)	3,510	3,295	15	3 310
Carried interest receivable	1	17	(9)	8	20	(10)	10
Intangible assets	1	26	(16)	10	32	(22)	10
Retirement benefit surplus		137	–	137	120	–	120
Property plant and equipment		5	–	5	7	–	7
Deferred income taxes	1	3	(2)	1	3	(2)	1
Total non-current assets		3,753	(82)	3,671	3,477	(19)	3,458
Current assets							
Other current assets	1	92	(20)	72	85	(20)	65
Derivative financial instruments		2	–	2	4	–	4
Deposits		–	–	–	90	–	90
Cash and cash equivalents	12	697	(54)	643	656	(46)	610
Total current assets		791	(74)	717	835	(66)	769
Total assets		4 544	(156)	4,388	4,312	(85)	4,227
Liabilities							
Non-current liabilities							
Carried interest and performance fees payable	1	(106)	80	(26)	(31)	11	(20)
Acquisition related earn-out charges payable		(18)	16	(2)	(22)	20	(2)
Loans and borrowings		(849)	–	(849)	(855)	–	(855)
B shares		(6)	–	(6)	(6)	–	(6)
Retirement benefit deficit		(14)	–	(14)	(14)	–	(14)
Derivative financial instruments		–	–	–	(55)	–	(55)
Deferred income taxes		(2)	2	–	(3)	1	(2)
Provisions	1	(5)	1	(4)	(8)	5	(3)
Total non-current liabilities		(1,000)	99	(901)	(994)	37	(957)
Current liabilities							
Trade and other payables	1	(198)	40	(158)	(178)	36	(142)
Carried interest and performance fees payable	1	(11)	5	(6)	(29)	13	(16)
Acquisition related earn-out charges payable		(10)	10	–	–	–	–
Loans and borrowings		–	–	–	(164)	–	(164)
Derivative financial instruments		(4)	–	(4)	(5)	–	(5)
Current income taxes	1	(4)	2	(2)	(2)	2	–
Deferred income taxes	1	(1)	–	(1)	(1)	1	–
Provisions	1	(8)	–	(8)	(5)	(4)	(9)
Total current liabilities		(236)	57	(179)	(384)	48	(336)
Total liabilities		(1,236)	156	(1,080)	(1,378)	85	(1,293)
Net assets		3,308	–	3,308	2,934	–	2,934
Equity							
Issued capital		718	–	718	718	–	718
Share premium		782	–	782	780	–	780
Other reserves	5	1 897	–	1 897	1 540	–	1 540
Own shares		(89)	–	(89)	(104)	–	(104)
Total equity		3,308	–	3 308	2,934	–	2,934

The notes relating to the table above are on page 56

Reconciliation of Statement of financial position

Notes

- 1 Applying IFRS 10 to the Statement of financial position aggregates the line items of a number of previously consolidated subsidiaries into the single line item "Investments in investment entities". In the investment basis we have disaggregated these items to analyse our net assets as if the investment entity subsidiaries were consolidated, consistent with prior periods. The adjustment reclassifies items in the Statement of financial position. There is no change to the net assets, although for reasons explained below, gross assets and gross liabilities are different. The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by investment entity subsidiaries is aggregated into the "Investments in investment entities" line. We have disaggregated this fair value and disclosed the underlying portfolio holding in the relevant line item, i.e. quoted equity investments, unquoted equity investments or loans and receivables. Other items which may be aggregated are carried interest and other payables, and the investment basis presentation again disaggregates these items.
- 2 Cash balances held in investment entity subsidiaries are also aggregated into the "Investments in investment entities" line. At 31 March 2014, £36 million of cash was held in subsidiaries that are now classified as investment entity subsidiaries and is therefore included in the "Investments in investment entities" line.
- 3 Intercompany balances between investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the Statement of financial position of the Group. Prior to the adoption of IFRS 10, these balances would have been eliminated on consolidation.
- 4 The Credit Opportunities Fund (Palace Street I) was previously classified as a current asset and, following the adoption of IFRS 10, has been reclassified as non-current in both the investment basis and IFRS statements.
- 5 Investment basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.

Reconciliation of Cash flow statement

	Note	Investment basis 2014 £m	IFRS adjustments 2014 £m	IFRS basis 2014 £m	Investment basis 2013 £m	IFRS adjustments 2013 £m	IFRS basis 2013 £m
Cash flow from operating activities							
Purchase of investments	1	(337)	223	(114)	(149)	67	(82)
Proceeds from investments	1	677	(225)	452	606	(253)	353
Cash investment/(divestment) into traded portfolio	1	14	(14)	–	(23)	23	–
Investment/(divestment) into fair value subsidiaries	1	–	46	46	–	197	197
Portfolio interest received	1	9	(3)	6	15	(10)	5
Portfolio dividends received	1	44	(19)	25	43	(21)	22
Portfolio fees received		4	–	4	4	–	4
Fees received from external funds	1	75	(23)	52	70	(28)	42
Carried interest received	1	5	(4)	1	20	–	20
Carried interest and performance fees paid	1	(25)	5	(20)	(30)	8	(22)
Acquisition related earn-out charges paid		–	–	–	(1)	1	–
Operating expenses		(128)	3	(125)	(188)	33	(155)
Interest received		3	–	3	7	–	7
Interest paid		(57)	–	(57)	(118)	–	(118)
Income taxes paid	1	(7)	4	(3)	(8)	5	(3)
Net cash flow from operating activities		277	(7)	270	248	22	270
Cash flow from financing activities							
Dividend paid		(114)	–	(114)	(76)	–	(76)
Repayment of short-term borrowings		(164)	–	(164)	(304)	–	(304)
Repurchase of long-term borrowings		–	–	–	(267)	–	(267)
Net cash flow from derivatives		(32)	–	(32)	11	–	11
Net cash flow from financing activities		(310)	–	(310)	(636)	–	(636)
Cash flow from investing activities							
Acquisition of management contracts	1	2	(2)	–	(18)	10	(8)
Purchase of property plant and equipment	1	–	–	–	(1)	–	(1)
Proceeds on sale of property plant and equipment		–	–	–	1	–	1
Net cash flow from deposits		90	–	90	351	–	351
Net cash flow from investing activities		92	(2)	90	333	10	343
Change in cash and cash equivalents	2	59	(9)	50	(55)	32	(23)
Cash and cash equivalents at the start of year	2	656	(46)	610	718	(78)	640
Effect of exchange rate fluctuations	1	(18)	1	(17)	(7)	–	(7)
Cash and cash equivalents at the end of year	2	697	(54)	643	656	(46)	610

Notes

1 The cash flow statement is impacted by the application of IFRS 10 as cash flows to and from investment entity subsidiaries are disclosed rather than the cash flows to and from the underlying portfolio

Therefore in our Investment basis financial statements we have disclosed our cash flow statement on a "look through" basis in order to reflect the underlying sources and uses of cash flows and disclose the underlying investment activity

2 There is a difference between the change in cash and cash equivalents of the Investment basis financial statements and the IFRS financial statements because there are cash balances held in investment entity subsidiary vehicles. Cash held within investment entity subsidiaries will not be shown in the IFRS statements but will be seen in the Investment basis statements

Risk

Principal risks and risk management

The Group faces a range of risks and uncertainties which could materially affect the achievement of its strategic objectives and in turn its financial performance

This section describes our approach to risk management and the process and governance framework that we have in place to identify, assess, manage and monitor risks. This is followed by a summary description of the principal risks facing the Group and the corresponding mitigating actions that are in place.

Approach to risk management

The Board is responsible for setting the overall strategic direction of the Group. As part of the strategic decision-making process, the Board seeks to achieve an appropriate balance between taking risk and generating returns for our shareholders. The evaluation of strategic choices and new opportunities requires a detailed risk assessment which takes into account the Board's overall risk appetite.

The Group's risk management framework is designed to support the delivery of the strategic objectives determined by the Board. This framework includes the periodic assessment of changes and developments which potentially impact the Group's overall risk profile, as well as the identification and assessment of key risks and the review of the effectiveness of the risk mitigation plans which have been put in place.

Risk management framework and governance structure

3i's risk management framework and associated governance structure are designed to ensure that there is an effective process and a clear organisational structure with well defined responsibilities to identify, assess, manage and monitor risk and operate at a number of levels throughout the Group.

The **Board** is responsible for overall risk management, which includes the Group's risk governance or oversight structure, and for maintaining an appropriate internal control framework.

Responsibility for oversight of risk management is delegated to the **Chief Executive** who has established the **Group Risk Committee** to assist him to discharge this responsibility. They are guided by the Board's appetite for risk and any specific limits set. The Group Risk Committee maintains the Group risk review, which summarises the Group's principal risks and associated mitigating actions.

The **Audit and Compliance Committee** is updated by the Chief Executive, as Chairman of the Group Risk Committee at each meeting on the outputs of the latest Group Risk Committee meeting and has the opportunity to contribute views or raise questions.

The outputs of the latest Group Risk Committee meeting are also considered by the Board as a whole, with a particular focus on the potential impact on the setting and execution of the Group's strategy.

The Group's reporting cycle and dates of key meetings are co-ordinated to ensure that appropriate risk and strategic reviews are performed in alignment with the scheduled Board and Audit and Compliance Committee meetings. The Group Risk Committee typically reviews risks over a rolling 12-month time horizon. Longer-term risks are considered by the Board as part of its annual strategic review, and then reflected in the Group risk review.

In addition to the above, a number of other committees contribute to the Group's overall risk governance structure.

The **Investment Committee** meets as required to consider risk in relation to the acquisition, management and disposal of investments within the authority limits delegated by the Board.

The **Conflicts Committee** reviews the Group's conflict policies and processes and meets periodically and as required to review any specific issues which may arise.

The **Treasury Transactions Committee** provides formal approval for specific treasury related transactions, taking into consideration any risk management implications, subject to specific limits or delegated authority from the Board.

The Group's **Brand and Values Committee** considers risks which could potentially impact the Group's brand and reputation, drawing upon the outputs of the Group's risk review.

The roles and membership of the above committees are described in more detail in the Governance section of this report. Further details on the risk management framework can also be found in 3i's Pillar 3 disclosures at www.3i.com.

Assurance to the Audit and Compliance Committee on the robustness and effectiveness of the Group's risk management processes is provided through the independent assessments by Internal Audit and the work of Group Compliance on regulatory risks. Management is also required to certify annually that risk mitigation controls have operated effectively throughout the year that the Group's policies have been complied with and any exceptions reported. Further information can be found in the Audit Committee report in the Governance section.

Risk review process

The Group Risk Committee is responsible for carrying out a detailed risk review of the Group and meets at least four times a year to coincide with meetings of the Executive Committee and the Audit and Compliance Committee. The Group risk review process was enhanced in the prior financial year to include improved monitoring of key strategic and financial metrics which are indicators of changes to the Group's risk profile. The review includes the following reference data:

- Financial performance and strategic dashboards,
- Portfolio performance reports for Private Equity Infrastructure and Debt Management,
- Vintage control and asset allocation analysis
- Macroeconomic and M&A market overview
- Liquidity management and ICAAP review
- Operating expenses,
- Responsible investment review,
- Risk reports for managed Alternative Investment Funds, and
- Quarterly Group risk log

Drawing upon the above, the Committee considers changes and developments since its last review and the potential for these to impact the Group's overall risk profile and therefore its strategic delivery. The Committee evaluates the impact and likelihood of each key risk with reference to associated measures and key performance indicators. The adequacy of current mitigation plans is assessed and, where necessary, additional actions agreed and reviewed at the subsequent meeting.

A number of focus topics are agreed in advance of each meeting which involve a more in-depth analysis. Further details are set out under the Review of principal risks.

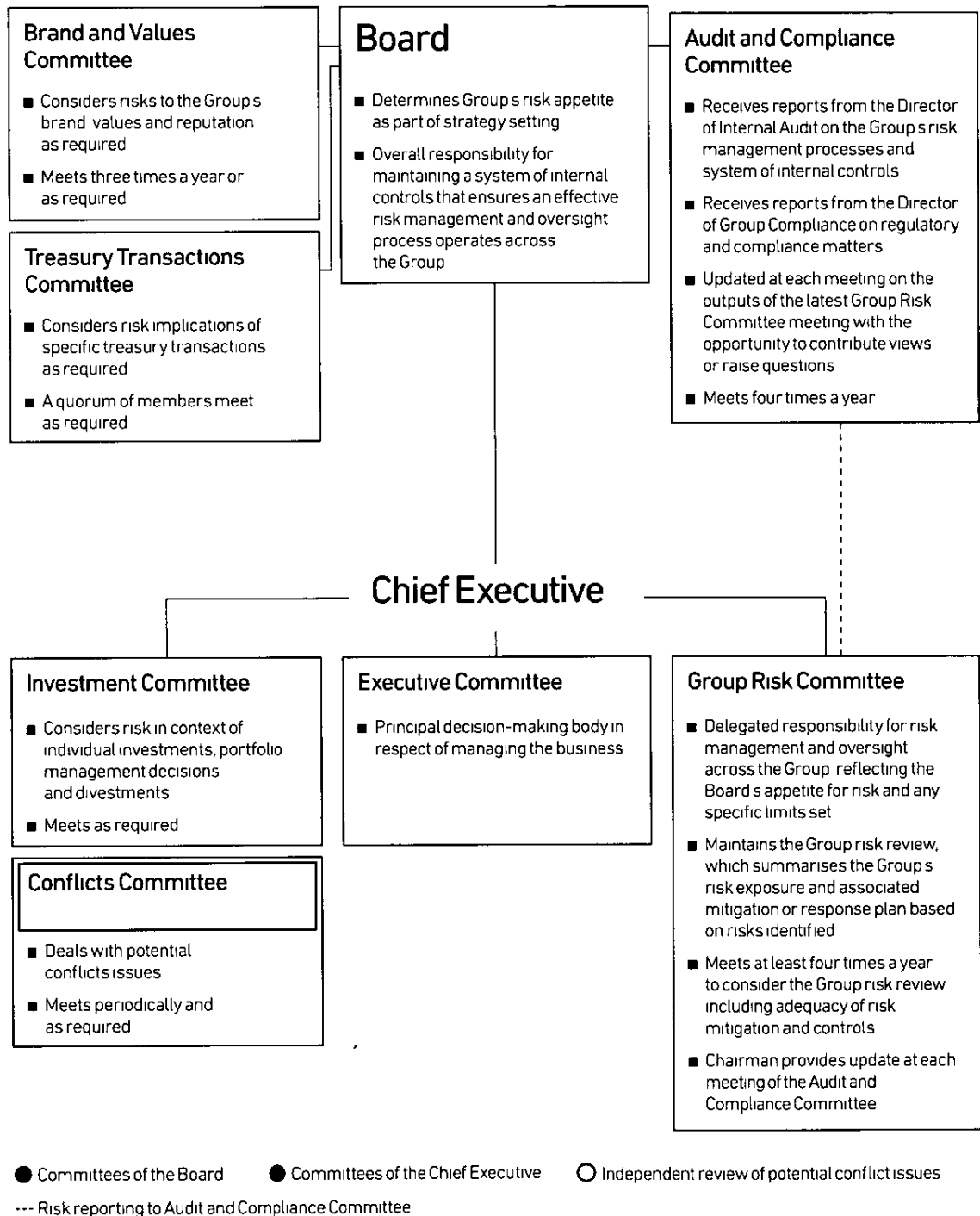
Changes and improvements

Following the implementation of the European AIFM Directive in July 2013, the Group has put in place a risk framework for each of its managed Alternative Investment Funds in line with the regulatory requirements. As part of this change, the Group Risk Committee receives and reviews risk reports for each AIF, which consider risks at the individual fund level, with reference to any risk limits applicable to the fund.

Management completed a review of our Responsible Investing (RI)/Environmental, Social and Governance (ESG) reporting framework in early 2014. As a result of the recommendations made, dedicated resource has been allocated to co-ordinate and manage 3i's approach to RI and ESG risk management and detailed updates are now being provided to the Group Risk Committee with streamlined reporting to both the Audit and Compliance Committee and Brand and Values Committee. Further details on 3i's approach to RI and ESG risk management can be found in the Corporate responsibility section of our website at www.3i.com.

Risk

Overview of risk management framework and governance structure



Review of principal risks

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of those principal risks which have the potential to impact materially the Group's financial performance and/or the achievement of its strategic objectives and which are under active review by the Group Risk Committee and the Board

Strategic

The preceding sections provide an overview of 3i's strategic priorities and progress against these. There were no fundamental changes in the Group's strategy in the prior year and delivery remains on target. Accordingly, the Group's risk profile has not been impacted by any significant changes in strategic direction.

External

The key external risks affecting 3i over the course of the financial year remained centred on the continuing challenging macroeconomic and market conditions and factors impacting these. There was also a significant increase in new regulatory requirements.

Economic stability and confidence more generally is vulnerable to weakening growth in developing markets, the pace and sustainability of economic recovery in Europe, and recent increases in geopolitical risk. The last includes developments in Eastern Europe and uncertainty around the outcome and impact of key elections, for example in Europe and India.

The Group is subject to a number of new regulatory requirements which are already in force or will come into force shortly. A key development is the European AIFM Directive, which came into force in July 2013. The Group is also affected by regulations under the European Market Infrastructure Regulation (EMIR) and Capital Requirements Directive IV (CRDIV). These changes will result in a significant increase in reporting requirements and additional costs to the business, and may potentially restrict some future activities.

The detailed application of IFRS 10 has led to wide debate across the investment management industry and accounting firms, and standard setting bodies continue to refine guidance. The Group has applied IFRS 10 in line with the guidance from the IFRIC meeting in January 2014 which was marginally supported but not approved by the IASB in March 2014. There is a risk that the interpretation of the standard will evolve further, for better or worse, resulting in future restatements of our statutory accounts.

Investment

Detailed commentaries on the performance of each of 3i's business lines can be found in the Business review section. The Group's key investment risks remain closely linked to the economic and market conditions referred to above.

The **Private Equity** business is the largest in terms of proprietary capital investment. Specific risks include the pricing of new investment opportunities, the potential operational underperformance of portfolio companies impacting earnings growth and valuations, and the timing of exits and cash returns.

A cautious and selective approach has continued to be applied to new investment over the year. The overall health and performance of the Private Equity investment portfolio has continued to improve, with the Group's larger investments growing strongly. The Group's Private Equity investment portfolio has become relatively more concentrated over time, with increasing exposure to the performance of a smaller number of larger investments. As expected, the pace of realisations has slowed in the second part of the financial year. In this context, exit strategies and the divestment pipeline continue to be monitored closely.

Specific risks to the **Infrastructure** business include the ability to maintain investment rates in a competitive market, where there is strong demand for infrastructure assets as investors seek yield. 3i completed the acquisition of Barclays Infrastructure Funds Management Limited (BIFM), a European infrastructure fund management business, in November 2013, and remains focused on increasing third-party AUM through new investments, fund raising and other potential inorganic opportunities. The 3i India Infrastructure Fund has been affected by the depreciation in the Indian rupee against sterling and the US dollar as well as the broader macroeconomic challenges in India. The current focus is on managing the value of the existing Indian portfolio with no plans for further investment or fundraising in the region.

The principal risk to the **Debt Management** business is the ability to grow AUM profitably in line with its business plan. The European CLO market has now re-opened and in September 2013 Debt Management launched its first European CLO (Harvest VII) since the establishment of the Debt Management platform in 2011. A further European CLO (Harvest VIII) was launched in February 2014. The level of new CLO issuance in the US initially slowed following the introduction of the Volcker Rule but the business launched two further CLOs, Jamestown III, in December 2013 and the COA Summit CLO in March 2014. The CLO market is likely to remain somewhat disrupted until the US regulatory agencies provide further guidance on the implementation of the Volcker Rule. The business has put in place new warehousing vehicles in both Europe and the US to seed future CLO launches and the business is seeking to expand and diversify its product offering beyond its core CLO funds. Whilst in the warehouse phase, 3i is at risk of margin calls in the event of market falls. In extreme market conditions, it may not be possible to convert the warehouse to a CLO and it may be necessary to liquidate the warehouse at a financial loss. Stress tests are performed when a warehouse is set up and monitored on a weekly basis thereafter. More detail is included in Note 32.

Risk

Treasury and funding

Details of the Group's approach to the management of treasury and funding risks can be found in the Financial review section

The main risk management priorities have been the continued reduction of the Group's funding costs through lower levels of gross debt and the monitoring of progress with the triennial valuation of the Group's UK defined benefit pension scheme. Following the reduction of gross debt to below the £1 billion target ahead of schedule and conclusion of the 2013 triennial pension fund valuation, the focus continues to be on monitoring liquidity and capital management in the context of the Group's investment strategy.

Operational

The key areas of operational risk include the exposure to the loss of key people, and ensuring that investor skill sets and business development capabilities support the achievement of the strategic plan. Detailed resource plans are in place at the business line level and a Group organisational capability and succession review was presented to, and reviewed by the Board in November 2013.

Organisational developments have included progress with the implementation of a new asset accounting IT system (eFront) which has been closely monitored. The implementation of processes and controls to meet new regulatory, accounting and tax reporting requirements affecting the Group has been subject to detailed project planning, input from external advisers and regular updates to senior management and the Board.

Group Risk Committee focus topics

In the course of the financial year, the Group Risk Committee has carried out a number of in-depth reviews. Topics covered have included integration planning for the BIFM acquisition, regulatory developments, and information security with a focus on cyber risk.

Key risk factors and risk mitigation

The table opposite summarises the key risks under active review by the Group Risk Committee. The Group faces a range of other risks which are managed through similar risk mitigation plans at the operational level, and are subject to regular management reporting and appropriate oversight. Examples include currency, counterparty and interest rate exposures, people risks, business continuity, potential exposure to litigation, and changes to tax regulations. This broader range of risks is considered by the Committee as part of its determination and evaluation of the Group's key risks.

Changes to the Group's risk profile during the financial year

The overall risk profile of the Group has been comparatively stable over the year as the strategic plan moved from the restructuring phase, which involved extensive organisational changes and cost reductions in FY2013 to the transition and delivery phase in FY2014 and FY2015.

The main factors which have impacted the risk profile during the year include:

- Successful implementation of the first phase of the strategic plan underpinning increased shareholder confidence,
- Strong performance of the Private Equity investment portfolio, including realisations
- No significant individual portfolio write-downs since March 2012 and 18 months of improved portfolio monitoring
- Reduction of gross debt and funding costs, and a shift of focus to liquidity and capital management,
- Met objective to cover annual operating expenses with cash income, improving the financial profile of the Group
- Some key people changes, which have been carefully managed
- New regulatory, accounting and tax reporting requirements which require some operational changes and additional costs to ensure ongoing compliance,
- Implementation of new Private Equity IT system substantially complete,
- Successful integration of the activities of the Barclays European Infrastructure team and
- Winding down of our operations in Brazil

Although some risk categories remain stable overall, the underlying risks may have changed over the course of the year. An example includes people risk. While the restructuring phase is largely complete, and the level of people change reduced, there continues to be ongoing management of the organisational capability in line with delivering the strategic plan.

Key risks considered in the year

External

- Economic stability and vulnerability to weaker growth or unwinding QE
- Significant geopolitical unrest for example in Eastern Europe
- Subdued M&A activity and high pricing in 3i's core markets could limit exit or investment opportunities
- Changes in regulation restrict or impose significant costs on the business

Investment

- Investment rate or quality is lower than expected
- Portfolio performance is weak or is impacted by a significant environmental, social or governance incident
- Ability to grow Debt Management AUM profitably in line with business plan

Operational

- Exposure to the loss of key people
- Organisational development including people and systems changes are delayed or not as planned

Consequences

- Limited growth or reduction in NAV and increase in gearing owing to multiple and/or earnings contraction in Private Equity and Infrastructure
- Impact on investment rates and realisations
- Impacts general market confidence and lowers risk appetite
- Leads to economic instability and lower growth
- Investment and realisation levels fall
- Reduces capacity to invest and pay enhanced shareholder distributions
- Lack of primary deal flow in the US and European CLO market
- Regulatory constraints on possible future business development and increased operating costs
- Complexity increases risk of non-compliance with possible financial or reputational consequences
- Impacts longer-term returns
- Impairs ability to raise new funds or attract new capital
- Reduction in NAV and realisation potential
- Increased covenant risk in weaker companies
- Impairs track record for fundraising purposes
- Inability to meet externally communicated targets on revenue and growth

- Potential to undermine investor and/or shareholder confidence
- Inability to deliver strategic plan

- Poor execution of strategic changes impacts delivery of stated targets

Risk mitigation

- Monthly portfolio monitoring to address any portfolio issues promptly
- Regular monitoring of liquidity and balance sheet
- Regular assessment of exposures to geopolitical risk across the investment portfolio
- Active management of exit strategies by Investment Committee to adapt to market conditions
- Regular monitoring of new investment work in progress and market activity
- Detailed evaluation of business impact supported by external advisers to assist in implementation
- New processes, procedures and additional resource to support compliance
- Management focus on building investment pipeline
- Early involvement of Investment Committee to identify key targets
- Regular review of vintage control and asset allocation
- Monthly portfolio monitoring to address any portfolio issues promptly
- Active management of new Chairman and CEO appointments
- Regular review of key Environmental, Social and Governance risks in portfolio
- Regular review of progress against business plan
- Review and development of the economics of the business and operating model
- Investment Committee review of new products, fund raising commitments and other proposals
- Formal organisational capability and remuneration review completed
- Contingency and succession planning
- Project governance and management including detailed risk assessment and mitigation planning
- Regular progress reports to Executive Committee

Corporate responsibility

For 3i, corporate responsibility is about being a responsible company, a responsible employer and a responsible investor. We take responsibility for our actions, carefully consider how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices and plans.

For fuller details of 3i's approach, including details of relevant 3i policies, please visit the CR section of our website at www.3i.com

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A responsible company

Governance

Good corporate governance is fundamental to 3i and its activities. For full details of our governance structure, please see the Corporate governance section of this report and visit the Governance section of our website at www.3i.com

Environmental impact

In the year to 31 March 2014, our measured Scope 1 and 2 emissions were 580 tonnes CO₂e. This comprised:

Scope	Emissions source	CO ₂ e emissions (tonnes) for year to 31 March 2014
1	Combustion of fuel and operation of our facilities	200.89
2	Electricity, heat and cooling purchased for our own use	379.40
Total		580.29

This equates to 2.09 tonnes CO₂e per employee for the year to 31 March 2014, based on an average number of employees during the year of 277.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statements.

We have used the World Resources Institute and World Business Council for Sustainable Development Greenhouse Gas Protocol as our methodology, combined with the UK Government conversion factors for company reporting to calculate our carbon footprint. It is not practical for us to obtain data relating to electricity consumption in our Singapore office or refrigerant losses for this period, as the relevant data is not within our control.

Community

We focus our charitable activities on the disadvantaged, on young people and on education. Charities are supported on the basis of their effectiveness and impact. Our charitable giving for the year to 31 March 2014 totalled £250,000.

Transparency

As a publicly-listed company, 3i is subject to formal legal and regulatory disclosure requirements as well as the high expectations for transparency of our shareholders, fund investors, staff and the media. We firmly believe that transparency is crucial for building trust, and we take a proactive approach to communicating both financial and non-financial performance.

Anti-bribery and corruption

3i does not offer pay or accept bribes. We are committed to working only with third-parties whose standards of business integrity are substantively consistent with ours. We also expect the businesses in which we invest to commit to avoiding bribery and to comply with anti-bribery laws applicable to their business.

A responsible employer

At 31 March 2014, 3i had a total of 266 employees and this is how they broke down by gender:

	Number	Male	Female
All 3i employees	266	166 (62%)	100 (38%)
3i Group plc Director ¹	8	6 (75%)	2 (25%)
Senior managers ²	47	39 (83%)	8 (17%)

¹ Includes non-executive Directors who are not 3i employees.

² Senior managers excludes Simon Borrows and Julia Wilson (who are included as Directors of 3i Group plc) and includes 27 people who were directors of undertakings included in the consolidation of whom 25 are male and two are female.

Human rights

Whilst 3i does not have a formal human rights policy, our policies are consistent with internationally-proclaimed human rights principles. In particular, 3i is an equal opportunities employer in relation to the selection, training, career development and promotion of employees regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise. 3i also has clear grievance and disciplinary procedures, an employee assistance programme and an independent external whistle blowing hotline service.

3i is also committed to ensuring that the businesses we invest in comply with all applicable laws in relation to their employees (amongst other things) and, where appropriate, that they work towards meeting relevant international standards (such as the ILO Fundamental Conventions) where these are more stringent. Summaries of relevant 3i policies, including our policies on people, recruitment and selection, equal opportunities and diversity, health and safety and responsible investment are available at www.3i.com.

During the year, we became an accredited London Living Wage Employer. This means that every member of staff based in London, including contracted maintenance and reception teams, earns a living wage, which is an hourly rate higher than the UK minimum wage and is set independently, updated annually and based on the cost of living in the UK.

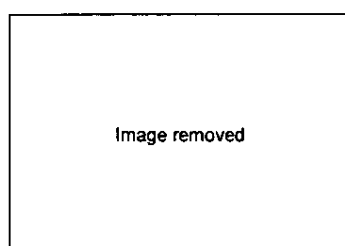
A responsible investor

We are signatories to the UN Principles for Responsible Investing and have embedded specific responsible investment (RI) policies and procedures into our investment and portfolio company review processes. During the year, dedicated resource was allocated to co-ordinate and manage 3i's approach to RI and environmental, social and governance issues and opportunities. Further details of 3i's approach as a responsible investor, including a summary of our Responsible Investment policy, are available at www.3i.com.

Case study

Community Links

3i has supported Community Links for 14 years and is currently supporting the Play, Sow and Grow community hub in east London.



Play, Sow and Grow is a purpose built community space in Stratford Newham, a borough that is ranked as the third most deprived in the UK, where 50% of children live in poverty and household income for most of these families is below the poverty line.

Play, Sow and Grow uses the natural environment to deliver educational play schemes where children are encouraged to spend time outdoors. The garden contains growing fruit and vegetables, roaming hens and a tree house, sand pit and other play equipment.

Over the past year, Play, Sow and Grow has engaged with 293 unique users and 7 local schools. Sessions were delivered via a range of activities,

including open access play for children between 5 and 11, stay and play for toddlers and parents, youth programmes for 12 to 16 year olds, including youth project workshops and Girl Guides, play activities for disabled children, summer schools, nature walks and daytrips, as well as activities for adults, such as cooking lessons, DIY gardening, community clean-up and English language classes.

In addition, the hub has engaged 808 people of varying ages through a number of events, including children's wildlife workshops, bird of prey displays, a summer horticultural school, and the Carols on the Green Christmas Concert.

Corporate Governance

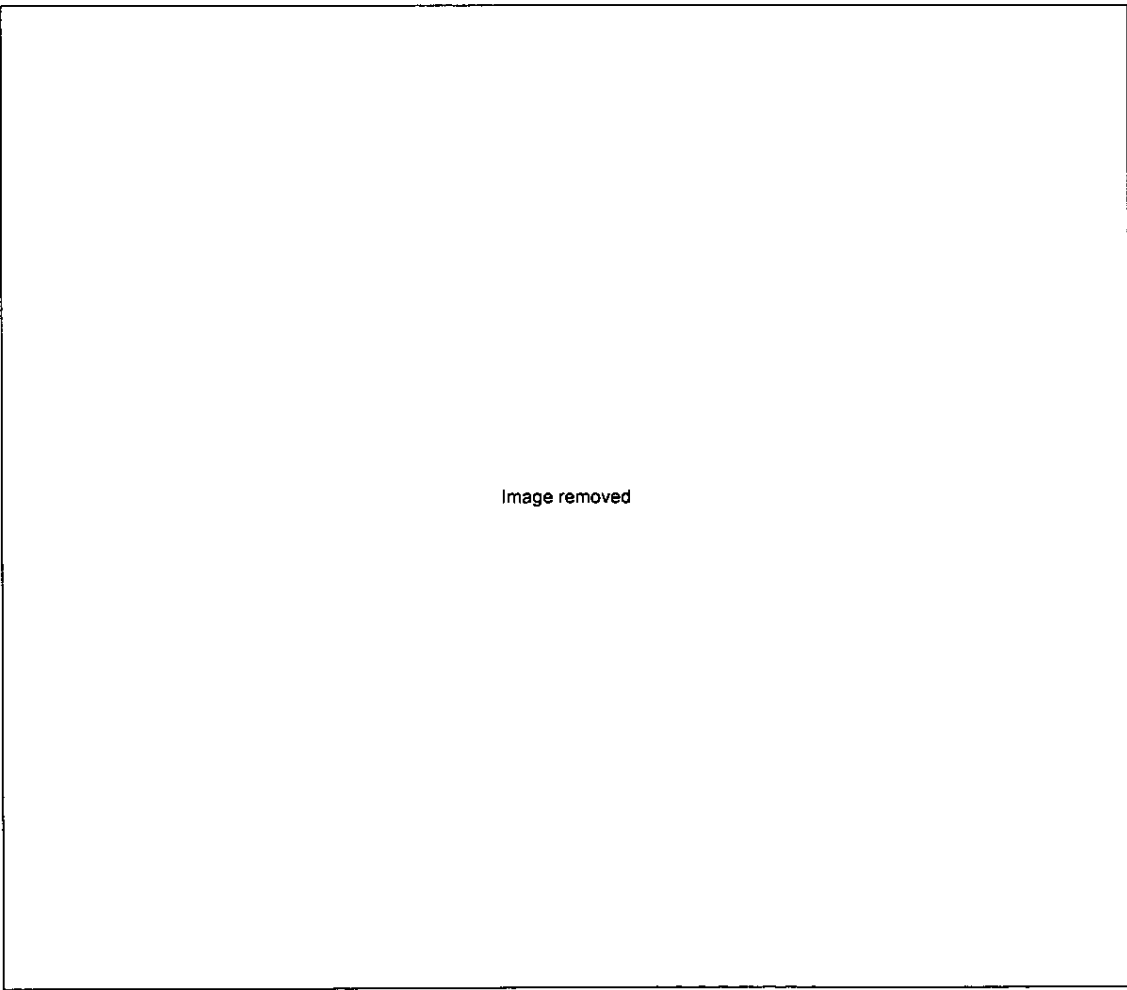


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Governance

Chairman's introduction

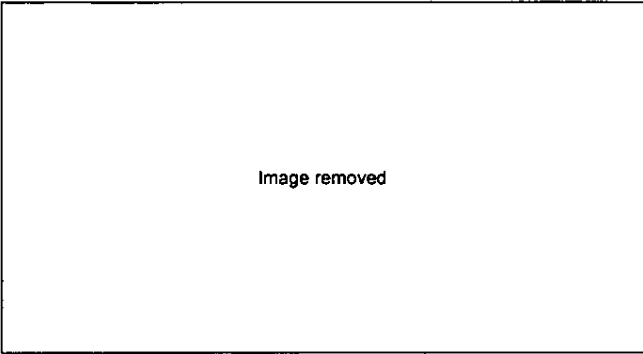


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Sir Adrian Montague
Chairman

"After a period of significant change the Board has focused on supporting management in the transition and delivery phase of 3i's strategy"

Introduction

This section of the report describes how 3i is governed and managed. It gives details on our Board and Executive Committee members and explains how the Board is organised and operates. It also explains the roles and composition of Board Committees and the division of responsibilities between the Directors, including between the Chairman and Chief Executive. This section also includes the Directors' remuneration report and the new Audit Committee report.

Good corporate governance is fundamental to 3i and its activities. Governance and oversight of the Group's business model and strategy are critical to the delivery of value to the Group's stakeholders.

This is more important than ever given the current challenging and uncertain economic environment and the changing regulatory landscape that our sector faces.

The Board is responsible to shareholders for the overall management and oversight of the Group and for its long-term success. In particular, the Board is responsible for agreeing the Group's strategy, monitoring financial performance, setting and monitoring the Group's risk appetite and maintaining an effective system of internal controls.

It is the Board's responsibility to ensure that the Group has a clear strategy and that the necessary people, resources and structures are in place to support the delivery of this strategy.

Board of Directors and Executive Committee

Board of Directors

Image removed

Sir Adrian Montague

Chairman

Chairman since 2010. Chairman of Anglian Water Group. A non-executive director of Aviva plc, Skanska AB and CellMark AB.

Previous experience

Chairman of Michael Page International plc, London First Friends Provident PLC, British Energy Group PLC, Cross London Rail Links Ltd (Crossrail) and Deputy Chairman of Network Rail and the UK Green Investment Bank plc.

Image removed

Simon Borrowes

Chief Executive

Chief Executive since May 2012, and an Executive Director since he joined 3i in October 2011. Chairman of the Group Risk Committee, the Executive Committee and the Group's Investment Committee. Also a non-executive director at Inchcape plc and The British Land Company PLC.

Previous experience

Formerly Chairman of Greenhill & Co International LLP, having previously been Co-Chief Executive Officer of Greenhill & Co Inc. Before founding the European operations of Greenhill & Co in 1998, he was the Managing Director of Baring Brothers International Limited.

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Julia Wilson

Group Finance Director

Group Finance Director and member of the Executive Committee since 2008. A member of the Group's Investment Committee since July 2012. Joined 3i in 2006 as Deputy Finance Director, with responsibility for the Group's finance, taxation and treasury functions. Also a non-executive director at Legal & General Group Plc.

Previous experience

Group Director of Corporate Finance at Cable & Wireless plc.

Image removed

Jonathan Asquith

Non-executive Director since 2011. Chairman of Citibank International plc and Citigroup Global Markets Limited, and Dexion Capital plc.

Previous experience

Non-executive director of Ashmore Group plc from 2008 to 2012. Executive director of Schroders plc from 2002 to 2008, during which time he was Chief Financial Officer and later Vice-Chairman. Previously spent 18 years in investment banking with Morgan Grenfell and Deutsche Bank. Chairman of AXA Investment Managers.

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Alistair Cox

Non-executive Director since 2009. Chief Executive of Hays plc.

Previous experience

Chief Executive of Xansa plc from 2002 to 2007, and Regional President of Asia and Group Strategy Director at Lafarge (formerly Blue Circle Industries) between 1994 and 2002.

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David Hutchison

Non-executive Director since November 2013. Chief Executive of Social Finance Limited.

Previous experience

Until 2009, Head of UK Investment Banking at Dresdner Kleinwort Limited and a member of its Global Banking Operating Committee.

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Richard Meddings

Non-executive Director since 2008 and Senior Independent Director since October 2010. Group Finance Director of Standard Chartered PLC since 2006, having joined the Board of Standard Chartered PLC as a Group Executive Director in 2002. A member of the Governing Council of the International Chamber of Commerce, United Kingdom.

Previous experience

Chief Operating Officer, Barclays Private Clients, Group Financial Controller at Barclays PLC and Group Finance Director of Woolwich PLC.

Image removed

Martine Verluyten

Non-executive Director since January 2012. A non-executive director of Thomas Cook Group plc, STMicroelectronics NV and Groupe Bruxelles Lambert.

Previous experience

Chief Financial Officer of Umicore, a Brussels-based listed materials technology group, from 2006 to December 2011. Before joining Umicore, she was Group Controller and then Chief Financial Officer of Mobistar.

Executive Committee

Image removed

Menno Antal

Managing Partner, Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010

Previous experience

Joined 3i in 2000 and Managing Director, Benelux, since 2003. Prior to joining 3i, held a broad range of international managerial positions within Heineken.

Image removed

Kevin Dunn

General Counsel, Company Secretary and Head of Human Resources

Responsible for 3i's legal, compliance, internal audit, human resources and company secretarial functions. A member of the Executive Committee since joining 3i in 2007.

Previous experience

Prior to joining 3i, was a Senior Managing Director, running GE's European Leveraged Finance business after serving as European General Counsel for GE. Prior to GE, was a partner at the law firms Travers Smith and Latham & Watkins.

Image removed

Jeremy Ghose

Managing Partner and CEO of 3i Debt Management

A member of the Executive Committee since joining 3i in 2011 on 3i's acquisition of Mizuho Investment Management (UK) Limited from Mizuho Corporate Bank.

Previous experience

Prior to joining 3i, was with Mizuho Corporate Bank (formerly The Fuji Bank) since 1988 and on its executive board since 2005. Founder of Mizuho's Leveraged Finance business in 1988 and of the third-party independent debt fund management business in 2005.

Image removed

Alan Giddins

Managing Partner, Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010.

Previous experience

Joined 3i in 2005. Prior to joining 3i, spent 13 years in investment banking, latterly as a Managing Director at Societe Generale.

Image removed

Neil King

Senior Partner, Infrastructure

A member of the Executive Committee since February 2014.

Previous experience

Joined 3i in 2005. Prior to joining 3i, experience in the infrastructure market including roles at Innisfree, WestLB and Barclays.

Image removed

Ben Loomes

Managing Partner, Infrastructure and Group Strategy Director

A member of the Executive Committee and the Group's Investment Committee since 2012.

Previous experience

Joined 3i in April 2012. Prior to joining 3i, experience included mergers and acquisitions, financing, advisory and restructuring including roles at Goldman Sachs, Greenhill & Co and Morgan Stanley.

Image removed

Phil White

Managing Partner, Infrastructure

A member of the Executive Committee and the Group's Investment Committee since February 2014.

Previous experience

Joined 3i in 2007. Prior to joining 3i, experience in infrastructure investment, advisory and financing including roles at Macquarie, WestLB and Barclays.

Board and Committees

Board and Committees structure

It is the Board's responsibility to ensure that there is an effective organisational and reporting structure in place such that there are clear reporting lines within the Group and well defined roles and responsibilities. This is to ensure that the right decisions are being made with involvement from the right people.

The Board is assisted by various Principal Committees of the Board which report regularly to the Board. The Board committee structure is outlined in the diagram on page 71. The membership of these Committees is regularly reviewed by the Board. When considering Board Committee membership and chairmanship, the Board aims to ensure that undue reliance is not placed on particular Directors.

These Board Committees all have clearly defined terms of reference. The terms of reference of the Audit and Compliance Committee, the Brand and Values Committee, the Nominations Committee, the Remuneration Committee and the Valuations Committee are available at www.3i.com.

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional Committees. These are also outlined in the diagram on page 71.

How the Board operates

The Chairman leads the Board and ensures its effectiveness. He also organises its business and sets its agenda. In addition to the Chairman, there are currently five independent non-executive Directors who have a range of strong and complementary skills.

The table set out on page 78 shows attendance at full meetings of the Board and its Principal Committees during the last year. In addition to those full meetings, a number of ad hoc meetings were held to deal with specific items as they arose.

Before each Board and Committee meeting, relevant reports and papers, including financial performance data and detailed updates on the progress and implementation of the strategic plan where appropriate, are circulated to Directors. The Board has the opportunity to discuss these reports and updates and to challenge directly the Executive Directors and other senior management who attend all or part of the Board meetings.

The key responsibilities and areas of focus for the Board are:

- **Strategy** – contribute to the development of, and agree, the Group's strategy. This includes through review and discussion of reports and updates at Board meetings as well as through the annual strategy review meeting which is attended by the Board and, where relevant, members of the Executive Committee.
- **Group financial and operational performance** – review and monitor the performance of the Group, including through regular reporting and discussions with the Executive Committee and other senior management.
- **Senior management** – ensure that the Executive Committee has the skills and resources to deliver the strategy and that appropriate succession and contingency planning is in place.
- **Evaluation and composition** – review the performance of the Board and its Committees to ensure that they are effective. Ensure that the Board and its Committees comprise competent and capable individuals with a range of skills and experience who bring independent views to the decisions being made.
- **Internal controls** – maintain an appropriate internal control framework.
- **Risk** – ensure that there are effective risk management policies and processes in place and an appropriate governance structure.

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. This is described on page 77. Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day management and operation of the business, the appointment and remuneration of all staff below the Executive Committee and the formulation and implementation of risk management policies and processes.

Overview of Committees of the Board and Chief Executive

3i Group plc Board

Principal Board Committees

Audit and Compliance Committee	Remuneration Committee	Brand and Values Committee	Nominations Committee	Valuations Committee
Financial reporting, risk and internal controls	Director and senior management remuneration and Group remuneration structure	Corporate values, ethical approach, brand and reputation	Board appointments and size, balance and composition of the Board	Valuation policy and investment valuations
Richard Meddings (Chairman) Jonathan Asquith Alistair Cox	Jonathan Asquith (Chairman) Alistair Cox David Hutchison	Sir Adrian Montague (Chairman) Simon Borrows Kevin Dunn All non-executive Directors are invited to attend and participate in the Committees meetings	Sir Adrian Montague (Chairman) Jonathan Asquith Simon Borrows Alistair Cox David Hutchison Richard Meddings Martine Verluyten	David Hutchison (Chairman) Sir Adrian Montague Simon Borrows Martine Verluyten Julia Wilson

Treasury Transactions Committee

In addition to its Principal Committees, the Board also has a number of other standing Committees established to consider specific items of business on an ad hoc basis as required. These include the Treasury Transactions Committee, which comprises the Chairman, the Chief Executive, the Group Finance Director and the Group Treasurer, which meets as required to approve treasury transactions. At least two members of the Committee are required to attend meetings to form a quorum.

Chief Executive

Chief Executive Committees

Executive Committee	Investment Committee	Group Risk Committee	Conflicts Committee
Principal decision-making body in respect of managing the business	Acquisition, management and disposal of investments	Oversees the Group's risk management framework	Independent review of conflict issues
Simon Borrows (Chairman) Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Neil King Ben Loomes Phil White Julia Wilson	Simon Borrows (Chairman) Menno Antal Alan Giddins Ben Loomes Ian Lobley Phil White Julia Wilson	Simon Borrows (Chairman) Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Ben Loomes Phil White Julia Wilson Director Group Compliance Director Internal Audit	Kevin Dunn (Chairman) Ben Loomes Julia Wilson

Board and Committees

Division of responsibilities

The Board approved division of responsibilities between the Directors is summarised below

Role of the Chairman	Role of the Chief Executive	Role of non-executive Directors
■ Leads the Board in setting its agenda, agreeing strategy monitoring financial and operational performance, and establishing the Group's risk appetite ■ Responsible for organising the business of the Board ensuring its effectiveness and maintaining an effective system of internal controls ■ Ensures that non-executive Directors receive relevant and accurate information to facilitate an open and effective discussion. This includes ensuring that the non-executive Directors receive regular reports on shareholders' views on the Group ■ Responsible for the composition of the Board and facilitates the effective contribution of non-executive Directors and constructive relations between Executive and non-executive Directors	■ Direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group ■ Leads the Executive Committee to develop and implement the Group's strategy and manage risk and the internal control framework ■ Chairs the Investment Committee to review the acquisition, management and disposal of investments ■ Reports to the Board on financial and operational performance and progress in delivering the strategic objectives ■ Regularly engages with shareholders and other key stakeholders on the Group's activities and progress	■ Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance ■ Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible ■ Determine appropriate levels of remuneration for Executive Directors and Executive Committee and have a prime role in appointing Directors and in succession planning ■ Constructively challenge and help develop proposals on strategy. This occurs at meetings of the Board and in particular at the annual review meeting to discuss ongoing strategy, the most recent of which took place in December 2013

Effectiveness

During the year, the Board conducted its annual evaluation of its own performance and that of its Committees and individual Directors. On this occasion, the process was led by the Chairman and conducted internally. The performance evaluation had been externally facilitated in the previous year by Dr Tracy Long of Boardroom Review Limited. The Chairman held one-on-one discussions informed by a checklist with all Directors, business unit heads, the Group Strategy Director, the Group General Counsel and Mr W Mesdag who retired from the Board in November 2013. The results of the evaluation process were reported to and discussed by the Board.

The Board performance evaluation included consideration of the following topics. The evaluation considered the overall composition of the Board including plans for executive and non-executive succession over time, which included the need for further non-executive Director recruitment. Directors made various useful suggestions to further enhance the functioning of individual Board committees. It was agreed to review and refocus the terms of reference of the Brand and Values Committee on a range of specific reputation-linked issues. Steps taken previously to enable non-executive Directors to increase further their knowledge of the Group's investments and engage more strongly with the Group's investment business were judged to have been successful and some further steps were agreed for the coming year. This included additional presentations to the Board from business units. Non-executive Directors attend each year a number of management's regular internal in-depth review discussions on individual portfolio companies which improves the Board's insight into day-to-day performance of portfolio companies. A number of suggestions as to how to increase the value of the non-executive Directors' involvement were made.

Following enhancements to regular Board reports made in the previous year suggestions were made for further improvement so as to focus the papers more specifically on key matters and to include certain additional analysis and explanation. The process for setting the aims and agenda for the Board's annual Strategy Day discussion was also refocused.

In his role as Senior Independent Director, Mr R H Meddings led a review by the Directors of the performance of the Chairman and subsequently reported back to the Board and provided feedback to the Chairman.

Investment policy

Under the UK Listing Authority's Listing Rules 3i, as a closed-ended investment fund, is required to publish an investment policy containing information about policies on asset allocation, risk diversification and gearing. Prior shareholder approval is required for any material change to this published policy. Non-material changes can be made by the Board. The current investment policy is set out opposite.

During the year the Company has continued its approach of conservative balance sheet management. The Board recognises the need to manage liquidity and gross and net debt levels on a conservative basis such that the Company should be well-placed to deal with external events, take advantage of opportunities and manage its investment and divestment activities in a flexible manner. The Board has decided that gross debt should not currently exceed £1 billion and may at times be significantly below this limit.

Statutory and corporate governance information

As a consequence, gearing, which is a function of both net debt and asset values, is expected to be in the range of 0%–30% for the immediate future. It should be noted that (subject always to the formal gearing limit in the Company's investment policy statement set out below) the actual gearing level at any point in time will fluctuate, since it is a function of among other things, asset valuations and the timing of investment and realisation cash flows. The Board anticipates that the Company may be in a net cash position during certain periods (for example during periods of high valuations where realisations might be expected to exceed investment) but may have net debt in other periods (for example where valuations are relatively low or after periods of low return flows).

Current Investment policy

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity infrastructure and debt management investment returns. Currently its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. In addition, although 3i does not set maximum exposure limits for asset allocations, no more than 15% by value of 3i's portfolio can be held in a single investment.
- Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

Proposed changes to Investment policy

3i will continue to seek to diversify risk through significant dispersion of investments. Following the strategic review in June 2012, and the implementation of the asset management initiatives in the Private Equity business, the portfolio has performed strongly. The Board has taken the view that the investment policy should apply its maximum exposure limit for a single investment to cost, not value, to avoid good performance becoming a restriction on its ability to maximise shareholder value through requiring a premature disposal of an investment which reached a limit on value.

The Board therefore proposes to seek shareholder approval at the Annual General Meeting on 17 July 2014 to amend the current investment policy so that the 15% maximum exposure limit for a single investment relates to the cost of the investment as a proportion of the portfolio value as shown in the then most recent portfolio valuation. The proposed change also provides that a higher maximum exposure limit of 30% should apply to 3i's investment in 3i Infrastructure plc, as that company is itself a diversified investment vehicle.

The proposed amended investment policy is set out below and further details are set out in the 2014 Notice of Annual General Meeting.

Proposed amended Investment policy

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity infrastructure and debt management investment returns. Currently its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio.
- Although 3i does not set maximum exposure limits for asset allocations, it does have a maximum exposure limit that, save as mentioned below, no investment will be made unless its cost does not exceed 15% of the investment portfolio value as shown in the last published valuation. A further investment may be made in an existing investee company provided the aggregate cost of that investment and of all other investments in that investee company does not exceed 15% of the investment portfolio value as shown in the last published valuation. A higher limit of 30% will apply to the Company's investment in 3i Infrastructure plc. For the avoidance of doubt, 3i may retain an investment even if its carrying value is greater than 15% or 30% (as the case may be) of the portfolio value at the time of an updated valuation.
- Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

Statutory and corporate governance information

Tax and investment company status

The Company is an investment company as defined by section 833 of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Company directs its affairs to enable it to continue to remain so approved.

Regulation and management arrangements

3i Investments plc, 3i Debt Management Investments Limited, 3i BIFM Investments Limited, 3i Europe plc and 3i Nordic plc, all of which are subsidiaries of the Company, are authorised and regulated by the Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries businesses outside the United Kingdom are regulated locally by relevant authorities.

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. Contracts for these investment management and other services for which regulatory authorisation is required, provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

3i plc provides the Group with certain corporate and administrative services for which no regulatory authorisation is required under contracts which provide for fees based on the work done and costs incurred in providing such services together with a performance fee based on realised profits on the sale of assets.

The Alternative Investment Fund Managers Directive (AIFMD) became effective in July 2013. 3i is currently in the process of registering 3i Investments plc as an Alternative Investment Fund Manager (AIFM) which in turn manages three Alternative Investment Funds (AIFs) namely 3i Group plc, 3i Growth Capital Fund and 3i Eurofund V. 3i has assessed the various requirements of the AIFMD and has made the necessary updates to its procedures to meet them.

The Annual report and accounts meet the investor reporting requirements of AIFMD (as set out in FUND 3.2.2R of the FCA's Investment Funds sourcebook) for 3i Group plc as a standalone entity. The Company's profit for the year is stated in its Statement of changes in equity and its Financial position is shown on page 106. The Company performs substantially all of its investment related activities through its subsidiaries and therefore the Group's consolidated Statement of Comprehensive Income is considered to be more useful to investors than a Company statement.

Furthermore in some instances the relevant AIFMD required disclosures have been made in relation to the Group on a consolidated basis rather than about 3i Group plc as a standalone entity. This is because 3i Group plc, as a standalone entity, operates through its group subsidiaries and therefore reporting on the Group's activities provides more relevant information on the Company and its position. There have been no material changes to the Company's operations in the past year.

Although the disclosures required by FUND 3.2.2R of the FCA's Investment Funds sourcebook are covered in this Annual report they are also for convenience summarised on the 3i website at www.3i.com. This will be updated as required and changes noted in future Annual reports.

As part of complying with AIFMD there is a requirement for 3i Investments plc as AIFM to appoint a depository for each AIF. We are well progressed with appointing Citibank International plc as depository and this will be completed prior to the AIFMD transitional deadline of 22 July 2014.

Results and dividends

Total comprehensive income for the year was £478 million (2013 £373 million). An interim dividend of 6.7p (comprising a base dividend of 2.7p and an additional dividend of 4.0p) per ordinary share in respect of the year to 31 March 2014 was paid on 8 January 2014. The Directors recommend a final dividend of 13.3p (comprising a base dividend of 5.4p and an additional dividend of 7.9p) per ordinary share be paid in respect of the year to 31 March 2014 to shareholders on the Register at the close of business on 20 June 2014.

The trustee of The 3i Group Employee Trust (the Employee Trust) has waived (subject to certain minor exceptions) dividends declared on shares in the Company held by the Employee Trust and the Trustee of The 3i Group Share Incentive Plan has waived dividends on unallocated shares in the Company held by it.

Share capital

The issued share capital of the Company as at 31 March 2014 comprised 971,803,122 ordinary shares of 73.19/22p each and 4,635,018 B shares (cumulative preference shares of 1p each) representing 99.99% and 0.01% respectively of the Company's issued share capital by nominal value.

The issued ordinary share capital of the Company as at 1 April 2013 was 971,405,127 ordinary shares and increased over the year by 397,995 ordinary shares due to the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the issue of shares under The 3i Group Discretionary Share Plan. At the Annual General Meeting (AGM) on 18 July 2013 the Directors were authorised to repurchase up to 97,000,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 15 May 2013) until the Company's AGM in 2014 or 17 October 2014 if earlier. This authority was not exercised in the year.

The issued B share capital of the Company as at 1 April 2013 was 4,635,018 B shares and did not change in the year. At the AGM on 18 July 2013 the Directors were authorised to repurchase up to 4,635,018 B shares in the Company until the Company's AGM in 2014 or 17 October 2014, if earlier. This authority was not exercised in the year.

Debentures

As detailed in Note 21 to the Accounts, as at 31 March 2014 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme

Directors' conflicts of interests

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association enable Directors to approve conflicts of interest and include other conflict of interest provisions. The Company has implemented processes to identify potential and actual conflicts of interest. Such conflicts are then considered for approval by the Board, subject, if necessary, to appropriate conditions

Directors' indemnities

As permitted by the Company's Articles of Association, the Company has maintained Qualifying Third-Party Indemnity Provisions (as defined under relevant legislation) for the benefit of the Company's Directors throughout the year

Employment

The employment policy of the Group is one of equal opportunity in the selection, training, career development and promotion of employees regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise

3i treats applicants and employees with disabilities fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Arrangements are made as necessary to ensure support to job applicants who happen to be disabled and who respond to requests to inform the Company of any requirements. Should an employee become disabled during their employment, efforts would be made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within 3i. Financial support is also provided by 3i to support disabled employees who are unable to work, as appropriate to local market conditions

3i's principal means of keeping in touch with the views of its employees is through employee appraisals, informal consultations, team briefings and staff conferences. Managers throughout 3i have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees

3i is an equal opportunities employer and has clear grievance and disciplinary procedures in place. 3i also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all UK staff and their families in the UK

3i's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the relevant costs remain at an appropriate level

Remuneration policy is reviewed by the 3i Group plc Remuneration Committee, comprising 3i Group plc non-executive Directors

3i's remuneration policy is influenced by 3i's financial and other performance conditions and market practices in the countries in which it operates. All employees receive a base salary and are also eligible to be considered for a performance-related annual variable incentive award. For those members of staff receiving higher levels of annual variable incentive awards, a proportion of such awards is delivered in 3i shares, vesting over a number of years

Where appropriate, employees are eligible to participate in 3i share schemes to encourage employees' involvement in 3i's performance. Investment executives in the Private Equity business line may also participate in carried interest schemes, which allow executives to share directly in any future profits on investments. Similarly, investment executives in the Infrastructure and Debt Management business lines may participate in asset-linked and/or fee-linked incentive arrangements. Employees participate in local state or company pension schemes as appropriate to local market conditions

Political donations

In line with Group policy, during the year to 31 March 2014 no donations were made to political parties or organisations, or independent election candidates, and no political expenditure was incurred

Significant agreements

As at 31 March 2014 the Company was party to the following agreements that are subject to a renegotiation period on a change of control of the Company following a takeover bid

(a) £450 million multi-currency Revolving Credit Facility Agreement dated 30 June 2011, between the Company, 3i Holdings plc, Lloyds TSB Bank plc and 12 other banks. The Company is required to notify Lloyds TSB Bank plc, as agent bank, within five days, of a change of control. This opens a 20-day negotiation period to determine if the Majority Lenders (as defined in the agreement) are willing to continue the facility. Failing agreement, amounts outstanding would be repayable and the facility cancelled, and

(b) £50 million multi-currency Revolving Credit Facility Agreement dated 29 September 2011, between the Company, 3i Holdings plc and Nordea Bank Finland PLC London Branch. The Company is required to notify the lender, within five days, of a change of control. This opens a 20-day negotiation period to determine if the lender is willing to continue the facility. Failing agreement, amounts outstanding would be repayable and the facility cancelled

Statutory and corporate governance information

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and accounts in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRSs) which have been adopted by the European Union

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. The Directors consider that this Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the Group financial statements the Directors

- (a) select suitable accounting policies in accordance with International Accounting Standard 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently,
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance,
- (d) state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements, and
- (e) make judgements and estimates that are reasonable.

The Directors have a responsibility for ensuring that proper accounting records are kept which are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

In accordance with the FCA's Disclosure and Transparency Rules the Directors confirm to the best of their knowledge that

- (a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and
- (b) the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors of the Company and their functions are listed in the Board of Directors and Executive Committee section.

Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2014.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review section. The financial position of the Group, its capital structure, gearing and liquidity positions are described in the Financial review section. The Group's policies on risk management, including treasury and funding risks, are contained in the Risk section. Further details are contained in the Financial statements and Notes including, in particular, details on financial risk management and derivative financial instruments.

The Directors believe that the Group is well placed to manage its business risks successfully. The Directors have considered the uncertainties inherent in current and expected future market conditions, their possible impact upon the financial performance of the Group and a report from the Group Finance Director on the outlook for liquidity. After consideration the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future and therefore continue to adopt the going concern basis in preparing the Annual report and accounts.

Audit information

Pursuant to section 418(2) of the Companies Act 2006, each of the Directors confirms that

- (a) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Appointment of auditors

In accordance with section 489 of the Companies Act 2006, a resolution proposing the reappointment of Ernst & Young, LLP as the Company's auditors will be put to members at the forthcoming AGM.

Corporate governance statement

This section of the Directors' report contains the corporate governance statement required by FCA Disclosure and Transparency Rule 7.2

Corporate governance

The Company seeks to comply with established best practice in the field of corporate governance. The Board has adopted core values and global policies which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and others who engage with the Company.

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the 'Code') published by the Financial Reporting Council in September 2012.

The Board's responsibilities and processes

The Board's key responsibilities are described on page 70. It is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise deal with or dispose of the Company's shares as the Board may decide. The Companies Act 2006 authorises the Company to make market purchases of its own shares if the purchase has first been authorised by a resolution of the Company.

At the AGM in July 2013, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits and also renewed the Board's authority to repurchase B shares on behalf of the Company subject to certain limits. Details of the authorities which the Board will be seeking at the 2014 AGM are set out in the 2014 Notice of AGM.

The Articles of Association also specifically empower the Board to exercise the Company's powers to borrow money and to mortgage or charge the Company's assets and any uncalled capital and to issue debentures and other securities.

Matters reserved for the Board

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

- Approval of the Group's overall strategy, strategic plan and annual operating budget,
- Approval of the Company's half-yearly and annual financial statements and changes in the Group's accounting policies or practices,
- Changes relating to the capital structure of the Company or its regulated status
- Major capital projects

- Major changes in the nature of business operations,
- Investments and divestments in the ordinary course of business above certain limits set by the Board from time to time
- Adequacy of internal control systems,
- Appointments to the Board and the Executive Committee,
- Principal terms and conditions of employment of members of the Executive Committee and
- Changes in employee share schemes and other long-term incentive schemes

Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day operation of the business, the appointment and remuneration of all executives below the Executive Committee and the formulation and execution of risk management policies and procedures.

A succession and contingency plan for executive leadership is prepared by management and reviewed periodically by the Board. The purpose of this plan is to identify suitable candidates for succession to key senior management positions, agree their training and development needs and ensure the necessary human resources are in place for the Company to meet its objectives.

Meetings of the Board

The principal matters considered by the Board during the year (in addition to matters formally reserved to the Board) included:

- The Group's strategic model, related KPIs and annual budget
- Regular reports from the Chief Executive,
- Regular reports from the Board's committees
- The recommendations of the Valuations Committee on valuations of investments,
- The Annual report and accounts, half yearly report and quarterly interim management statements
- The Group's dividend policy,
- Organisational capability and succession plans, and
- The acquisition of Barclays Infrastructure Fund Management Limited

Reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

Performance evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. Further details are given on page 72.

Corporate governance statement

Attendance at Board and Committee Meetings

The table below shows the number of full meetings of the Board and its committees attended by Directors during the year to 31 March 2014 and, in brackets, the number of such meetings they were eligible to attend. In addition to these meetings a number of ad hoc meetings were held to deal with specific items as they arose.

	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Valuations Committee	Brand and Values Committee ³
Total meetings held	7	6	7	6	4	2
Number attended						
Sir Adrian Montague	7(7)		7(7)		4(4)	2(2)
S A Borrows	7(7)		6(7)		4(4)	2(2)
J S Wilson	7(7)				4(4)	
J P Asquith	7(7)	6(6)	5(7)	6(6)		2(2)
A R Cox	7(7)	6(6)	7(7)	6(6)		2(2)
D A M Hutchison ¹	3(3)		4(4)	2(2)	1(1)	1(1)
R H Meddings	7(7)	6(6)	7(7)			1(2)
W Mesdag ²	5(5)		3(3)	4(4)	3(3)	1(1)
M G Verluyten	7(7)	4(4)	7(7)		0(1)	2(2)

1 Appointed 11 November 2013

2 Resigned 30 November 2013

3 Although not members of the Brand and Values Committee all non-executive Directors are invited to attend and participate in the Committee's meetings

Appointment and re-election of Directors

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive Directors are appointed for an initial three-year term. Before the third and sixth anniversaries of first appointment, the Director discusses with the Board whether it is appropriate for a further three-year term to be served.

Under the Company's Articles of Association the minimum number of Directors is two and the maximum is 20, unless otherwise determined by the Company by ordinary resolution. Directors are appointed by ordinary resolution of shareholders or by the Board. The Company's Articles of Association provide for Directors to retire by rotation at an AGM if they were appointed by the Board since the preceding AGM: they held office during the two preceding AGMs but did not retire at either of them; they held non-executive office for a continuous period of nine years or more at the date of that AGM, or they choose to retire from office. Shareholders can remove any Director by special resolution and appoint another person to be a director in their place by ordinary resolution.

Subject to the Company's Articles of Association, retiring Directors are eligible for reappointment. The office of Director is vacated if the Director resigns, becomes bankrupt or is prohibited by law from being a Director or where the Board so resolves following the Director suffering from ill-health or being absent from Board meetings for 12 months without the Board's permission.

In accordance with the Code all Directors choose to submit to reappointment every year. Accordingly, at the AGM to be held on 17 July 2014, all the Directors will retire from office. All the Directors are eligible for and seek reappointment other than Mr R H Meddings who will retire as a Director at the conclusion of the AGM. The Board's recommendation for the reappointment of Directors is set out in the 2014 Notice of AGM.

The roles of the Chairman, Chief Executive and Senior Independent Director

The Board approved division of responsibilities between the Chairman of the Board and the Chief Executive is described on page 72

Mr R H Meddings has served as Senior Independent Director since October 2010, to whom, in accordance with the Code, concerns can be conveyed

Directors

Directors' biographical details are set out on page 68. The Board currently comprises the Chairman, five independent non-executive Directors and two Executive Directors. Sir Adrian Montague served as Chairman and Mr J P Asquith, Mr S A Borrows, Mr A R Cox, Mr R H Meddings, Ms M G Verluyten and Mrs J S Wilson served as Directors throughout the year under review. Mr W Mesdag served as a Director until 30 November 2013 and Mr D A M Hutchison served as a Director from 11 November 2013.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgment to bear on issues of strategy, performance, resources and standards of conduct, and to help the Board provide the Company with effective leadership. Further details of their role are set out on page 72. Non-executive Directors are expected to make available sufficient time to meet the requirements of the appointment. The average time commitment is expected to be around 15 days a year together with additional time for serving on the Board's committees.

The Board's discussions, and its approval of the Group's strategic plan and annual budget, provide the non-executive Directors with the opportunity to contribute to and validate management's plans and assist in the development of strategy. The non-executive Directors receive regular management accounts, reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives.

Directors' independence

All the non-executive Directors (other than the Chairman, who was independent on appointment) were considered by the Board to be independent for the purposes of the Code in the year to 31 March 2014.

The Board reviews non-executive Director independence at least annually, having regard to the potential relevance and materiality of a Director's interests and relationships. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

Directors' employment contracts

Details of Executive Directors' employment contracts are set out in the Directors' remuneration report.

Training and development

The Company has a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to update their skills and maintain their familiarity with the Company and its business continually. Presentations on different aspects of the Company's business are made regularly to the Board. On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment or support teams.

The Company has procedures for Directors to take independent legal or other professional advice about the performance of their duties.

The Board's Committees

As described on page 71, the Board is assisted by various principal committees of the Board which report regularly to it.

Audit and Compliance Committee

The membership and activities of the Audit and Compliance Committee are described in its report on pages 84 to 86.

Remuneration Committee

The membership and activities of the Remuneration Committee are described in the Directors' remuneration report.

Nominations Committee

The Nominations Committee comprises Sir Adrian Montague (Chairman), Mr S A Borrows, Mr J P Asquith, Mr A R Cox, Mr D A M Hutchison, Mr R H Meddings and Ms M G Verluyten, all of whom served throughout the year, save for Mr Hutchison who served from his appointment as a Director on 11 November 2013. Mr W Mesdag was a member of the Committee until his resignation from the Board on 30 November 2013.

During the year, the Nominations Committee held seven meetings at which it:

- Considered the size, balance, diversity (including gender) and composition of the Board, including succession planning, and the needs of the Company in terms of the desirable experience and qualifications of future appointees as non-executive Directors;
- Considered candidates for appointment as non-executive Director and recommended to the Board the appointment of Mr Hutchison; and
- Considered and put in train arrangements for selecting further candidates for recommendation to the Board for appointment as non-executive Director.

Corporate governance statement

The Company has a formal, rigorous and transparent process for the appointment of Directors with the objective of identifying the skills and experience profile required of new Directors and identifying suitable candidates. The procedure includes the appraisal and selection of potential candidates by the Committee including (in the case of non-executive Directors) whether they have sufficient time to fulfil their roles. Specialist recruitment consultants assist the Committee to identify suitable candidates for appointment. The Committee's recommendations for appointment are put to the full Board for approval.

Further to the publication of the Davies Report on Women on Boards, and Code Provision B 2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a broad range of approaches, backgrounds, skills and experience represented on the Board and to make appointments on merit and against objective criteria including diversity. External search consultancies engaged by the Company are instructed to put forward for all Board positions a diversity of candidates including women candidates. Neither of the two external search consultancies engaged by the Committee during the year, The Zygos Partnership and Russell Reynolds Associates, had other connections with the Company.

Valuations Committee

The Valuations Committee comprises Mr D A M Hutchison (Chairman), Sir Adrian Montague, Ms M G Verluyten, Mr S A Borrows and Mrs J S Wilson, all of whom served throughout the year except Mr Hutchison who served from 30 November 2013 and Ms Verluyten who served from 3 December 2013. Mr W Mesdag was a member and Chairman of the Committee until his resignation as a Director on 30 November 2013.

During the year, the Valuations Committee met four times and

- Considered and made recommendations to the Audit and Compliance Committee and the Board on the quarterly valuations of the Group's investments
- Received reports from the external Auditors on the valuations process and proposed valuations
- Reviewed the Group's valuation policies and procedures and recommended changes to the Audit and Compliance Committee and the Board where relevant, and
- Considered and made recommendations on all other matters relating to the valuations for the purpose of the accounts of the Company and the consolidated accounts of the Company and its subsidiaries

The Company has a formal, robust process for valuing its investment portfolio and the investment portfolio of its subsidiaries. This process and the policy which governs it, is reviewed annually. The Valuations Committee, under delegated authority from the Board of the Company, considers amendments and changes to the policy and recommends them to the Audit and Compliance Committee and the Board. The Valuation policy complies with applicable International Financial Reporting Standards (IFRS) and the guidelines issued by the International Private Equity Valuations Board (the IPEV guidelines). The policy is applied to all investment assets held by the Company or its subsidiaries, or vehicles managed or advised by the Company or its subsidiaries.

The valuation policy was reviewed formally in January 2014. The situations where run-rate earnings are appropriate, the application of caps and discounts and the valuation of equity stakes in CLOs were specifically discussed and recommended. The Committee also reviewed and recommended amendments to the policy in light of the application of AIFMD to ensure compliance.

In addition to the Committee members, meetings of the Valuations Committee are also attended by the Group Financial Controller, members of the central Valuations team and the external Auditors.

Brand and Values Committee

The Brand and Values Committee comprises Sir Adrian Montague (Chairman), Mr S A Borrows and Mr K J Dunn, all of whom served throughout the year. In addition, all of the Company's non-executive Directors are invited to attend meetings of the Committee and participate in its discussions.

During the year, the Brand and Values Committee met twice. Activities in the year included considering and approving changes to the ESG management framework within the Group, reviewing and updating the Group's Responsible Investment policy and receiving reports on reputational risk matters. It also reviewed proposed changes to the Committee's own terms of reference intended to refocus the Committee on a range of specific reputation linked issues.

Treasury Transactions Committee

In addition to its Principal Committees, the Board also has a number of other standing committees established to consider specific items of business on an ad hoc basis as required. These include the Treasury Transactions Committee which comprises the Chairman, the Chief Executive, the Group Finance Director and the Group Treasurer and meets as required to approve treasury transactions. At least two members of the Committee are required to attend meetings to form a quorum.

The Company Secretary

Directors have access to the advice and services of the General Counsel and Company Secretary, who advises the Board through the Chairman on governance matters. The Company's Articles of Association and the schedule of matters reserved to the Board or its duly authorised committees for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Major interests in ordinary shares

Notifications of the following major voting interests in the Company's ordinary share capital (notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules or section 793 Companies Act 2006) had been received by the Company as at 31 March 2014 and 1 May 2014

Major interests in ordinary shares

	As at 31 March 2014	% of issued share capital	As at 1 May 2014	% of issued share capital
BlackRock Inc	122 120 719	12.57%	124 135 432	12.77%
Artemis Investment Management LLP	60 476 307	6.22%	61 494 728	6.33%
UBS Global Asset Management	36 937 866	3.80%	37 127 198	3.82%
Legal & General Investment Management Limited	35 364 367	3.64%	33 056 726	3.40%
J O Hambro Capital Management Group Limited	30 122 056	3.10%	32 060 759	3.30%
Royal London Asset Management Limited	–	below 3%	30 372 540	3.13%

Relations with shareholders

The Board recognises the importance of maintaining a purposeful relationship with shareholders. The Chief Executive and the Group Finance Director meet with the Company's principal shareholders to discuss relevant issues as they arise. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. The Board receives reports from the Company's brokers on shareholder issues and non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Chief Executive. The Chairmen of the Remuneration, Audit and Compliance and Nominations Committees are generally available to answer shareholders' questions.

The 2013 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2014 is set out below.

The Company's Articles of Association may be amended by special resolution of the shareholders in general meeting. Holders of ordinary shares and B shares enjoy the rights set out in the Articles of Association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as the Company by ordinary resolution or, failing such resolution, the Board may decide.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. To attend and vote at a general meeting, a shareholder must be entered on the register of members at such time (not being earlier than 48 hours before the meeting) as stated in the Notice of general meeting. On a poll, holders of ordinary shares are entitled to one vote for each share held. Holders of ordinary shares are entitled to receive the Company's Annual report and accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of the B shares or such other shares with preferred rights as may then be in issue.

Holders of B shares are entitled, out of the profits available for distribution in any year and in priority to any payment of dividend or other distribution to holders of ordinary shares, to a cumulative preferential dividend of 3.75% per annum calculated on the amount of 127p per B share (the Return Amount). On a return of capital (other than a solvent intra-Group reorganisation), holders of B shares are entitled to receive in priority to any payment to holders of ordinary shares payment of the Return Amount together with any accrued but unpaid dividends but are not entitled to any further right of participation in the profits or assets of the Company.

Holders of B shares are not entitled to notice of or to attend, speak or vote at general meetings save where the B share dividend has remained unpaid for six months or more or where the business of the meeting includes consideration of a resolution for the winding-up of the Company (other than a solvent intra-Group reorganisation) in which case holders of B shares shall be entitled to attend, speak and vote only in relation to such resolution and in either case shall, on a poll, be entitled to one vote per B share held.

Corporate governance statement

There are no restrictions on the transfer of fully paid shares in the Company, save as follows. The Board may decline to register a transfer of uncertificated shares in the circumstances set out in the Uncertificated Securities Regulations 2001: a transfer to more than four joint holders; a transfer of certificated shares which is not in respect of only one class of share; a transfer which is not accompanied by the certificate for the shares to which it relates, a transfer which is not duly stamped in circumstances where a duly stamped instrument is required, or a transfer where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the information required within the specified time. In the latter circumstances the Company may make the relevant shares subject to certain restrictions (including in respect of the ability to exercise voting rights) to transfer the shares validly and except in the case of a liquidation to receive the payment of sums due from the Company). Since 14 July 2009 the Company has been entitled to appoint a person to execute a transfer on behalf of all holders of B shares in acceptance of an offer paying the holders such amount as they would have been entitled to on a winding-up of the Company.

There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares, save where in accordance with Article 12 of the Company's Articles of Association a restriction notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with.

In the circumstances specified in Article 38 of the Company's Articles of Association the Company may serve a transfer notice on holders of shares. The relevant circumstances relate to: (a) potential tax disadvantage to the Company; (b) the number of United States Residents who own or hold shares becoming 75 or more; or (c) the Company being required to be registered as an investment company under relevant US legislation. The notice would require the transfer of relevant shares and pending such transfer the rights and privileges attaching to those shares would be suspended.

The Company is not aware of any agreements between holders of its securities that may restrict the transfer of shares or exercise of voting rights.

Portfolio management and voting policy

In relation to unquoted investments the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts and through active engagement with the Boards of those companies. In relation to quoted investments the Group's policy is to exercise voting rights on all matters affecting its interests.

Internal control

The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised committees for decision the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Board considers and approves a strategic plan and budget on an annual basis and receives regular updates. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

The Group Risk Committee is a management committee formed by the Chief Executive and its purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year to 31 March 2014 and up to the date of this report. Details of the risk management framework can be found in the Risk section.

The overall internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the internal control guidance for Directors on the Code issued by the Turnbull Committee. The internal control process established for the Group includes:

Policies

- Core values and global policies together comprising the Group's high level principles and controls, with which all staff are expected to comply;
- Detailed policies and procedures with processes for reporting weaknesses and for monitoring corrective action; and
- A Compliance manual with procedures for reporting compliance therewith.

Processes

- Appointment of experienced and professional staff both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities
- A planning framework which incorporates a Board approved strategic plan, with objectives for each business unit,
- Formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas
- The setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learnt
- A comprehensive system of financial reporting to the Board based on an annual budget with monthly reporting of actual results analysis of variances scrutiny of key performance indicators and regular re-forecasting
- Regular reports to the Board, which analyse funding requirements, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to exchange rate movements and record the level of compliance with the Group's funding objectives
- A Group Compliance function whose role is to integrate regulatory compliance procedures and best practices into the Group's systems, and
- Well defined procedures governing the appraisal and approval of investments including detailed investment and divestment approval procedures incorporating appropriate levels of authority and regular post-investment reviews

Verification

- An Internal Audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management,
- The external auditors who are engaged to express an opinion on the annual financial statements, and
- An Audit and Compliance Committee which considers significant control matters and receives reports from Internal Audit the external auditors and Group Compliance on a regular basis

The internal control system is monitored and supported by Internal Audit and Group Compliance which operate on an international basis and report to management and the Audit and Compliance Committee on the Group's operations. The work of Internal Audit is focused on the areas of greatest risk to the Group determined with reference to the Group's risk management process

The external auditors independently and objectively review the approach of management to reporting operating results and financial condition. They also review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion

Financial reporting

In the context of the above internal control framework there are specific processes in place in relation to Financial Reporting, including

- Comprehensive system of key control and oversight processes, including regular reconciliations, line manager reviews and systems access controls
- Updates for consideration by the Audit and Compliance Committee of accounting developments, including draft and new accounting standards and legislation
- A separate Valuations Committee which considers the Group's investment valuation policies application and outcome
- Approval of the Group's budget by the Board and regular updates on actual and forecast financial performance against budget,
- Reports from Internal Audit on matters relevant to the financial reporting process including periodic assessments of internal controls processes and fraud risk
- Independent updates and reports from the external auditors on accounting developments, application of accounting standards key accounting judgements and observations on systems and controls and
- Regular risk reviews including an assessment of risks to reliable financial reporting covering people processes and systems and updates on the management of identified risks or actual incidents

Directors' report

For the purposes of the UK Companies Act 2006, the Directors' report of 3i Group plc comprises the Strategic report on pages 5 to 65 and Corporate Governance on pages 66 to 102

The Directors' report has been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by that law

By order of the Board

K J Dunn
Company Secretary



13 May 2014

Registered Office
16 Palace Street
London SW1E 5JD

Audit Committee report

Image removed

Richard Meddings Chairman, Audit Committee

"The Audit Committee has had a busy year, particularly considering the changes to accounting standards and the presentation of the Group's performance."

Introduction

This is the first separate Audit Committee report we have presented since the recommendations of the Financial Reporting Council. In the report, I have set out the matters of focus for the Committee during the course of the year, the areas in which judgment has been exercised, and considered the effectiveness, independence and objectivity of our external auditors.

Membership

The Audit and Compliance Committee comprises Mr R H Meddings (Chairman), Mr J P Asquith and Mr A R Cox all of whom are independent non-executive Directors and served throughout the year. In addition Ms M G Verluyten served as a member of the Committee until 3 December 2013. The Board is satisfied that the Committee Chairman Mr R H Meddings, has recent and relevant financial experience.

Regular attendees at the meetings are the Chief Executive, Group Finance Director, Group Financial Controller, Heads of Internal Audit and Compliance and the external auditors, Ernst & Young LLP. Members of the Executive Committee and other attendees may be invited from time to time depending on the nature of agenda items.

The Committee's work

The Committee met six times during the year and the attendance of members at meetings is shown in the table on page 78. During the year the Committee's activities included the following:

- Considered, on behalf of the Board, whether the Annual report and accounts taken as a whole, are fair, balanced and understandable and allow shareholders to assess the Group's performance, business model and strategy.
- Received the reports of the Valuations Committee on the valuation of the Group's investment assets and recommended valuations to the Board.
- Reviewed portfolio management processes and tax compliance arrangements.
- Reviewed the effectiveness of the internal control environment of the Group and the Group's compliance with its regulatory requirements.
- Reviewed and recommended to the Board the accounting disclosures comprised in the half-yearly and annual financial statements of the Company and reviewed the scope of the annual external audit plan and the external audit findings.
- Received regular reports and updates from the Group's internal audit function on its audit plan, monitored its activities and reviewed its independence, effectiveness and resourcing.
- Received regular reports from Group Risk Committee and the Group's regulatory compliance function.
- Oversaw the Company's relations with its external auditors including assessing auditor performance, independence and objectivity and recommending the auditors' reappointment.
- Received an annual report from the Group Tax Director on developments on the legislation, status of the Group's compliance and approach to the management of tax risks.
- Met separately with the Group Finance Director, the Director Internal Audit, the Director Group Compliance and the external auditors in the absence of management.
- Received regular reports on litigation involving the Group, on the Group's regulatory capital position, on developments in regulation and accounting standards, on bank covenants and third-party liabilities and on Directors' and Executive Committee members' expenses.

Further details on a number of these activities are provided in the remainder of this report.

Significant issues on the Financial statements

The Committee considered the following significant issues in relation to the results for the year

Area of judgment

Valuation of the Proprietary Capital portfolio

The most material area of judgment in the financial statements relates to the valuation of the unquoted Proprietary Capital portfolio which at 31 March 2014 was £3 011 million or 91% of net assets under the Investment basis

In recognition of the importance of this area the Board has established a separate Valuations Committee to review the valuations policy process and application to individual investments. This Committee provides quarterly reports to the Audit and Compliance Committee

Portfolio valuations are prepared in accordance with IFRS and the IPEV guidelines. A detailed explanation of the valuations policy is provided on pages 156 to 158

Application of IFRS 10

The Group makes investments in portfolio companies directly and on behalf of third-parties. In certain circumstances, as investment manager or adviser, the Group is assessed as having control of those investments under IFRS

IFRS 10 acknowledges that as an investment company the nature of that control differs from that of a holding company of an operating subsidiary, and provides an investment entity exception from the requirement to consolidate its interests in portfolio companies and allows the Group to continue to record its investments at fair value

However, the detailed application of IFRS 10 also results in the deconsolidation of a number of intermediate holding companies in the Group which are now also recorded at fair value. The consequence of this is less transparency of the underlying performance of the Group's Proprietary Capital investments and of other key performance indicators of the Group

Therefore, in the interest of transparency and in the context of the need to ensure that the Annual report and accounts are fair, balanced and understandable, the results are presented on an Investment basis which continues to consolidate the intermediate holding companies. A reconciliation from the Investment basis to IFRS financial statements is provided in pages 54 to 57 and the primary statements and Notes to the accounts (pages 103 to 151) have been prepared in accordance with IFRS 10

What the Committee did

On behalf of the Board, the Committee receives and reviews quarterly reports from the Chairman of the Valuations Committee and the Group Finance Director, which support the published net asset value of the Group. The external auditors review the valuations and input from the external auditors includes detailed review by their valuations practice to support the audit team

In addition to that regular review, during the year it specifically considered

- the appropriateness and extent of capping and discounting multiples used to value the Private Equity portfolio in positive markets,
- the use of run-rate earnings in high growth companies and in respect of the Group's investment in Action in particular, and
- the need to enhance the valuation process in respect of equity investments in Debt Management as fund raising conditions improved and the amount of investment increased

The Committee satisfied itself that the Valuations Committee had discharged its responsibilities appropriately through a review of the detailed Valuation Committee papers, enquiry of the Chairman of the Valuations Committee, the Group Finance Director and the external auditors. No adjustments to the valuations proposed were made as a result of those reviews

The Committee followed the developments of IFRS 10 closely, receiving regular reports from the Group Finance Director, Group Financial Controller and the external auditors and noting the guidance recommended by the IFRS Interpretations Committee (IFRIC) in January 2014, which was marginally supported, but not adopted by the IASB in March 2014

It considered the merits of adopting the standard early with effect from 1 April 2013, and concluded that on balance it was preferable to do so taking account of the impracticalities of potentially consolidating the many portfolio companies

It reviewed the presentation of the Investment basis, the reconciliation to the IFRS financial statements and the IFRS financial statements and the Notes to those statements

It made enquiries of the external auditors to understand the detailed application of IFRS 10

The Committee concluded that the requirement to present an Annual report and accounts that is fair, balanced and understandable took precedence over the need to avoid the prevalence of non-GAAP measures in the strategic report. It was satisfied that the detailed explanation and reconciliation from the Investment basis and IFRS financial statements was sufficient to ensure transparency for the users of the financial statements

Audit Committee report

Area of judgment

Segmental reporting

During the year the Group has developed the business model which reflects that it has two principal activities: Proprietary Capital investing and Fund Management.

Different proportions of Proprietary Capital are invested in Private Equity in Infrastructure and in Debt Management, as illustrated in the Strategic report on page 12.

Correspondingly different levels of third-party capital are managed or advised for each business line. The strategic intent is to ensure that the combined Fund Management activity as a whole is profitable on a sustainable basis.

What the Committee did

The Committee considered the development of the presentation of the Group's Proprietary Capital and Fund Management activities.

Using papers prepared by management during the course of the year it reviewed the extent of segmental reporting and considered whether disclosure had been enhanced or reduced.

It reviewed the allocation methodology for the treatment of operating costs, carried interest payable and receivable and net interest payable.

It also reviewed the basis of calculation for the synthetic management fee applied to the Proprietary Capital and Fund Management results based on market rates and industry practice.

Accordingly the Committee concluded that the segmental reporting should be augmented at this stage of the Group's strategic development, with consolidated Proprietary Capital and Fund Management returns data.

Assessing external audit effectiveness

The Committee specifically reviews the effectiveness of the external auditors, Ernst & Young LLP, each year. It does so through the use of questionnaires completed by management, considering the extent of their contribution at its meetings throughout the course of the year and in one-to-one meetings between Ernst & Young LLP and members of the Committee, and concluded that the audit was effective.

During the year the Committee reviewed the Audit Quality Inspections Annual Report and the Public Report on Ernst & Young LLP. It also considered the audit plan for the year, which includes the use of Ernst & Young LLP's valuation practice to support the audit of the portfolio valuations.

Appointing the Auditor and safeguards on non-audit services

Ernst & Young LLP has been the Group's statutory auditor since at least 1994 when 3i Group became listed. The engagement audit partner was rotated this year. The Committee is aware of the new requirement to undertake a tender of the external audit every 10 years and change auditor at least every 20 years. The Committee last reviewed the audit market in 2008 and the audit fee structure in 2012.

The Committee has considered when to undertake a full tender. In doing so it has had regard to the extent of change in the Group following the strategic review in June 2012, which included a significant reduction in the headcount in the Finance team, the implementation of the new Private Equity financial system, a significant increase in reporting in accordance with the new requirements of AIFMD, EMIR, CRD IV and FATCA and the application of IFRS 10 in the current year. A full tender will therefore be conducted at an appropriate time between now and 2018, when the current audit partner will be due for rotation.

The Committee recognises the importance of ensuring the independence and objectivity of the Company's auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees.

The Committee Chairman is notified of all assignments allocated to Ernst & Young LLP over a set threshold, other than those related to due diligence within the Group's investment process where the team engaged would be independent of the audit team. Appointments in relation to the investment process are reviewed separately by the Investment Committee. Safeguards have been put in place to reduce the likelihood of compromising auditor independence, including the following principles which are applied in respect of services provided by the auditors and other accounting firms and monitored by the Committee:

- Services required to be undertaken by the auditors, which include regulatory returns, formalities relating to borrowings, shareholder and other circulars. This work is normally allocated directly to the auditors,
- Services which it is most efficient for the auditors to provide. In this case, information relating to the service is largely derived from the Company's audited financial records, for example corporate tax services. This work is normally allocated to the auditors subject to consideration of any impact on their independence, and
- Services that could be provided by a number of firms including general consultancy work. All significant consultancy projects are normally put out to tender and work would be allocated to the auditors only if it did not present a potential threat to the independence of the audit team. Included in this category is due diligence work relating to the investment process. If this service were to be provided by the auditors, the specific team engaged would be independent of the audit team.

Details of the fees paid to the auditors are disclosed in Note 5 to the financial statements.

By order of the Board
R H Meddings
 Chairman, Audit Committee
 13 May 2014



Directors' remuneration report

Image removed

Jonathan Asquith, Chairman, Remuneration Committee

"The Committee's remuneration decisions have been based upon achievement against the strategic priorities for the year."

Statement by the Remuneration Committee Chairman

As Remuneration Committee Chairman I am pleased to introduce the Directors' remuneration report for the financial year 1 April 2013 to 31 March 2014 (the year) and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "the current year" relate to the financial year 1 April 2014 to 31 March 2015.

This report is the first that has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ("the Regulations"). The report is presented in two sections:

- the Policy report, which is subject to a binding shareholder vote, and
- the Implementation report, which sets out how the policy was implemented for the year and how we intend to apply the policy for the current year, which will be subject to an advisory vote.

Performance in the year

We are now almost two years into the multi-year strategic plan that was set out by our Chief Executive, Simon Borrowes, in June 2012. Following the successful delivery of the first year's Restructuring phase, the Company has moved into the Transition and delivery phase of the plan, and is now a more streamlined business delivering strong performance. The Committee's decisions regarding the remuneration of the Executive Directors have been made based upon achievement against the strategic priorities for the year, with the highlights being:

Annual operating cash profit

In the past the Company has operated at a material annual operating cash deficit. The impact of the savings delivered by the restructuring while maintaining cash income resulted in a £5 million profit for the year.

Grow third-party income and generate a sustainable annual operating profit from our fund management activities

Assets under management grew by £41 million to £12,911 million during the year, and together with the cost reduction programme the Fund Management platform generated an underlying profit (excluding restructuring and amortisation costs) and margin of £33 million and 26% respectively, compared to £17 million and 13% for the previous year.

Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our core investment businesses

There continues to be significant improvement in the shift away from using capital to pay operating costs, funding costs and debt repayment costs and towards more being used for shareholder distributions and reinvestment.

These significant achievements and progress made during the year are reflected in the remuneration decisions contained within the Implementation report.

Priorities for the Committee

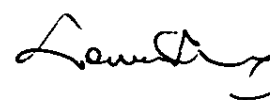
The Company's strategic objectives for the current year are reflected in the performance measures that will be applied to the annual bonus, with our longer-term objectives reflected in the performance measures applicable to the LTIP awards. As the Restructuring and Transition phases of the strategic plan near completion, we have reviewed the appropriateness of continuing to link 50% of the LTIP performance measures to a balanced scorecard of particular strategic measures. Following the review, and to ensure the performance measures remain appropriate, the strategic measures used last year will be replaced with a relative total shareholder return metric. The details of this are shown in more detail on page 101. The Committee considers the annual bonus objectives to be commercially sensitive, and while they are not fully disclosed on page 101 of the report, they will be disclosed retrospectively with the performance achieved against each of them.

The levels of pay that our Directors will be eligible to receive will remain substantially unchanged in the current year. Since the completion of our strategic reward review last year and following further consultation with some of our key shareholders, there have been two changes to our arrangements to reinforce the long-term alignment of our pay with shareholders, being:

- The increase in the deferral level of annual bonuses for Executive Directors and Executive Committee members from 40% to 50% of any bonus awarded, starting with any bonus awarded in respect of FY2015. This deferral will continue to be invested in Company shares, and be released 25% per annum over four years, and
- As announced at last year's Annual General Meeting, the timing of the release of LTIP awards will revert to the previous practice of being released 50% on the third anniversary and 25% on the fourth and fifth anniversaries of grant.

The Remuneration Committee values all feedback from shareholders, and hopes to receive your support at the forthcoming Annual General Meeting.

Jonathan Asquith,
Chairman, Remuneration Committee
13 May 2014



Directors' remuneration report

Policy report

Remuneration policy table

The table below summarises the policy in respect of each element of the Company's remuneration for Executive and non-executive Directors effective from the date of the 2014 Annual General Meeting. This policy will be put forward for shareholder approval at the 2014 Annual General Meeting in accordance with section 439A of the Companies Act 2006.

This policy remains unchanged from FY2014 except where highlighted below. While the Committee will consider the appropriateness of the Remuneration policy annually to ensure it continues to align with the business strategy, there is no current intention to revise the policy more often than every three years, unless required to through changes to regulations or legislation.

Executive Directors

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Base salary ■ To provide a fixed element of pay at a level that aids the recruitment, retention and motivation of high performing people ■ To reflect their role, experience and importance to the business	■ Salaries are normally reviewed annually by the Committee, with any changes usually becoming effective from 1 July ■ These are reviewed by taking into account a number of factors, including: – performance of the Company and individual – wider market and economic conditions, – any changes in responsibilities and – the level of increases made across the Company	■ Whilst there is no maximum salary level, increases are generally considered in the context of those awarded to other employees and the wider market ■ Higher increases may be awarded in exceptional circumstances. For example, this may include a change in size, scope or responsibility of role, or development within the role or a specific retention issue ■ The annual base salary for each Executive Director is set out in the Annual report on Remuneration for the year	■ None, although the Committee considers when setting salary levels the breadth and responsibilities of the role as well as the competence and experience of the individual
Pension ■ To provide contributions to Executive Directors to enable them to make long-term savings to provide post-retirement income ■ Pension contributions are provided to both support retention and recruit people of the necessary calibre	■ Participation in the defined contribution pension scheme (3i Retirement Plan) or cash equivalent ■ Prior to 2011 Executive Directors were eligible for membership of the 3i Group Pension Plan, a defined benefit contributory scheme. Pension accrual ceased for all members with effect from 5 April 2011, although a link to final salary is maintained for existing accrual up to the date of leaving the Company ■ For the period from 5 April 2011 until 5 April 2015, defined benefit members receive additional contributions into their defined contribution pension scheme as transitional relief for members whose pension accrual ceased on 5 April 2011	■ Executive Directors receive a pension contribution or cash allowance of 12% of pensionable salary ■ In addition, if an Executive Director is a member of the 3i Group Pension Plan, they are eligible to receive a maximum additional contribution of 5% of the first £50,000 of pensionable salary in the year to April 2015 only ■ For those Executive Directors who were members of the 3i Group Pension Plan, their deferred pension will change to reflect the deferred pension available on leaving, payable from age 60 ■ Details for the current Executive Directors are set out in the Annual report of remuneration for the year	■ N/A

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Benefits ■ To provide market competitive benefits at the level needed to attract and retain high performing people ■ To provide health benefits to support the well being of employees	■ Executive Directors are entitled to a combination of benefits including a non-pensionable car allowance private medical insurance, an annual health assessment and life assurance ■ The Remuneration Committee may remove benefits that Executive Directors receive or introduce other benefits if it is appropriate to do so ■ Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees	■ Whilst there is no maximum level of benefits, they are generally set at an appropriate market competitive level taking into account a number of factors including market practice for comparable roles within appropriate pay comparators ■ The Remuneration Committee may review the benefits for an existing or new Executive Director at any point	■ N/A
Annual bonus ■ To incentivise the achievement of the Group's strategic objectives on an annual basis ■ Deferral into shares reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and risk alignment	■ Bonus awards are considered annually based on performance in the relevant financial year ■ All performance targets are reviewed and set by the Committee early in the year ■ Awards are determined by the Committee after the year based upon the actual performance against these targets ■ No more than 50% of any bonus award is paid as cash ■ At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years ■ Deferred bonus awards may be granted in the form of conditional share awards, options or forfeitable shares. Awards may also be settled in cash ■ Participants receive the value of dividends in cash on the shares which are subject to the award ■ Deferred share awards are subject to the malus/clawback policy (as set out in the notes on page 91)	■ Maximum bonus of 400% of salary for the Chief Executive ■ Maximum bonus of 250% of salary for the Group Finance Director ■ A bonus of above 75% of the maximum opportunity is only awarded for exceptional performance	■ Performance is assessed against a balanced scorecard which aligns with the strategic objectives of the Group ■ The targets can be a range of financial, business line specific personal, risk and other key Group targets ■ The Committee uses the scorecard as a prompt and guide to judgment and considers the performance outcomes in the wider context of personal performance (including values and behaviours) risk market and other factors ■ Details of the annual performance targets (and performance against targets) are shown within the Annual report of remuneration

Directors' remuneration report

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
Long-term Incentive Plan ■ Alignment of reward with long-term sustainable Company performance and the creation of shareholder value over the longer-term ■ The combination of strategic performance measures and total shareholder return targets balance internal and external perspectives of performance and align participants with shareholders interests	■ All performance targets along with relative weightings, are reviewed and set by the Committee prior to awards being made ■ The Committee may make an award in the form of forfeitable shares conditional share awards stock appreciation rights, or options under the plan Awards may be settled in cash ■ Award levels are determined by reference to individual performance prior to grant ■ Awards vest subject to the Group's achievements against the performance targets over a fixed three year period ■ To the extent that shares vest, they are released 50% on or around (but not earlier than) the third anniversary of grant, and 25% on or around (but not earlier than) the fourth and fifth anniversaries of grant ■ The Committee may determine that participants may receive the value of dividends in cash or shares which would have been paid on the shares that vest under awards ■ Performance share awards are subject to the malus/clawback policy (as set out in the notes opposite)	■ Awards granted in respect of a financial year will have a face value of up to 400% of salary for the Chief Executive ■ Awards granted in respect of a financial year will have a face value of up to 250% of salary for the Group Finance Director ■ Normally no payment will be made for below threshold performance Between 20% and 25% of the award vests at threshold performance, depending upon the performance condition	■ The scorecard used to measure the performance links at least half of the award to total shareholder returns and the balance if any, to strategic objectives set by the Board ■ The achievement against these targets is measured over a three-year period and is determined by the Committee ■ The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed ■ Details of the current performance conditions are shown within the Annual report of remuneration
Shareholding requirements	■ Executive Directors are required to build up over a reasonable period of time and thereafter maintain a shareholding in the Company's shares Vested shares (net of income tax and National Insurance contributions) under the Deferred Bonus Plan and Long-term Incentive Plan should be retained until the shareholding requirement is met ■ In addition shareholding targets exist for other members of the Executive Committee and for staff designated as "partners" in the Group's businesses ■ The Committee retains the ability to introduce additional retention conditions	■ The shareholding targets for the Executive Directors are – Chief Executive – 3.0 times salary – Group Finance Director – 1.5 times salary ■ Executive Committee members have a target of 1.5 times salary and selected "partners" 1.0 times salary	■ N/A

Notes to the Remuneration policy table

Performance conditions

The Committee selected the performance conditions used for determining the annual bonus and LTIP awards as they align directly with the short and long-term strategy of the business. These conditions are set annually by the Committee at levels that take into account the Board's business plan.

Changes to the policy operated in FY2014

There have been no changes to the remuneration policy from that which was applied during the year, other than an increase in the proportion of the annual bonus that is deferred over four years from 40% to 50%. This has been increased to align the Executive Directors' interests more closely with those of shareholders.

Consistency with policy for all employees

All employees are eligible to receive salary, pension contributions and benefits and to be considered for a discretionary annual bonus with the maximum opportunities reflecting the role and seniority of each employee. Other members of the Executive Committee are subject to the same bonus deferral arrangements as the Executive Directors. Higher-earning members of staff below Executive Committee have a portion of their bonus deferred into shares vesting in equal instalments over a three-year period.

Within each of the Group's businesses, senior members of staff have a significant part of their compensation linked to the long-term performance of the Groups and its clients' investments through carried interest schemes or similar arrangements.

Co-investment and carried interest plans

Executive Directors, other than the Chief Executive and Group Finance Director, are permitted to participate in carried interest plans and similar arrangements. This was approved by shareholders on 4 July 2001 and 6 July 2011 when approving the Group's Long-term Incentive Plan. No current Executive Director benefits from these arrangements.

Malus/Clawback policy

The Committee has agreed a policy which applies to long-term incentive awards and deferred bonus share awards made during the year to Executive Directors (and certain other Senior Executives) under which awards may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate. This would include material misstatement of Group financial statements or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

The Committee may make minor changes to this policy, which do not have a material advantage to Directors, to aid in its operation or implementation without seeking shareholder approval for a revised version of this Policy report.

Non-executive Directors

Purpose and link to strategy	Operation	Opportunity
Non-executive Directors – Fees ■ To attract and retain high performing non-executive Directors of the calibre required	■ Non-executive Directors receive a basic annual fee ■ The fee is delivered in a mix of cash and shares ■ The Chairman's fee is reviewed annually by the Committee ■ Fees are benchmarked against other companies of comparable size and against listed financial services companies ■ The Board is responsible for determining all other non-executive Director fees which are reviewed annually to ensure they remain appropriate	■ Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company but the Company avoids paying more than necessary for this purpose ■ Additional fees are paid for the following roles/duties – Senior Independent Director – Committee Chairman – Committee membership ■ Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee

Directors remuneration report

Recruitment policy

In determining remuneration arrangements for new executive appointments to the Board (including internal promotions), the Committee will take into consideration all relevant factors including the calibre of the individual, the nature of the role, local market practice, the individual's current remuneration package, the remuneration policy, internal relativities and existing arrangements for other Executive Directors. For external appointments, some variation may be necessary in order to attract the successful candidate and to reflect particular skills or experience specifically required.

The maximum level of variable pay (as expressed as a multiple of base salary) which may be awarded to new Executive Directors in respect of their appointment shall be no more generous than the combined maximum limits expressed in the Remuneration policy table above in respect of the Chief Executive, with an appropriate mix between annual bonus and LTIP opportunity, excluding any awards made to compensate the Executive Director for awards forfeited by their previous employer.

It may be necessary to compensate the new Executive Director for variable pay being forfeited from their current employer. The Committee's intention is that any such award would be no more generous than the awards being forfeited and would be determined on a comparable basis at the time of grant, including the pay out schedule and performance conditions where appropriate.

In determining whether it is appropriate to use such judgment, the Committee will ensure that any awards made are in the best interests of both the Company and its shareholders. The Committee is at all times conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

For an internal appointment of a new Executive Director, any existing awards made prior to becoming a Director would be allowed to vest and pay out in accordance with the existing plan rules.

In the event of the appointment of a new non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

Service contracts

The main terms of the service contracts of the Executive Directors who served in the year were as follows:

Provision	Policy
Notice period	■ 12 months' notice if given by the Company ■ 6 months' notice if given by the Executive Director ■ Company policy is that Executive Directors' notice periods should not normally exceed one year. Save for these notice periods, the contracts have no unexpired terms.
Dates of contracts	■ Mr S A Borrows – 17 May 2012 ■ Mrs J S Wilson – 1 October 2008
Termination payments	■ Mr Borrows' contract entitles the Company to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment. ■ All Directors' contracts entitle the Company to give pay in lieu of notice.
Remuneration and benefits	■ The operation of all incentive plans, including being eligible to be considered for an annual bonus and Long-term Incentive Plan awards, is non-contractual. ■ On termination of employment, outstanding awards will be treated in accordance with the relevant plan rules.

The Chairman and the non-executive Directors do not have service contracts or contracts for services. Their appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director. Service contracts are available for inspection at the Company's headquarters in business hours.

Payment for loss of office

As outlined above, the Committee must satisfy any contractual obligations agreed with the Executive Directors. Details of the Directors' notice periods are shown alongside the service contract information.

An Executive Director may be eligible to receive a time pro-rated annual bonus in respect of the year up until he or she ceased employment. In determining whether to award any bonus, the Committee will assess performance during the financial year up to the date of cessation of active involvement in their management role.

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table and the note below it summarise the leaver categories and the impact on the share awards which employees (including Executive Directors) may hold.

For the avoidance of doubt, the Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above where the terms of that payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award or option over shares, the terms of the payment are "agreed" at the time the award is granted.

Plan	Good leaver categories	Good leaver treatment ¹	Bad leaver treatment ¹
Deferred share awards	■ Death ■ Retirement ■ Ill-health, injury, disability ■ Redundancy ■ Employing company/business ceasing to be part of 3i Group ■ Scheduled Departure (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)	Awards vest in full on the normal vesting date On death, awards vest in full immediately	Unvested awards lapse in full Vested awards structured as options may be exercised for three months following the participant's cessation of employment
Long-term Incentive Plan	■ Death ■ Retirement ■ Ill-health, injury, disability ■ Redundancy ■ Employing company/business ceasing to be part of 3i Group ■ Scheduled Departure (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)	Awards normally vest on the normal vesting date subject to performance. Scaling back for time will normally apply. If a participant dies, the Committee will determine the extent to which awards should vest as soon as practicable following the participant's death.	Awards lapse in full If the Committee decides the awards should vest after the participant's cessation of employment, awards will vest subject to performance and it may scale back awards or impose additional conditions.

¹ The treatments set out in the table above apply to all employees and are expected to operate in the vast majority of cases. The Plan rules retain discretion for the Committee to reduce awards in exceptional circumstances to Good Leavers or permit vesting (in whole or in part) of awards which would otherwise lapse to Bad Leavers. The Committee will report on the use of this discretion if it is exercised in relation to any Executive Director.

Directors remuneration report

Change of control

If there is a takeover or winding up of the Company, awards will vest to the extent determined by the Committee

Scenarios

Graph removed

Graph removed

The assumptions made in preparing these graphs are that

- Minimum – this includes only the fixed elements of pay, being base salary benefits and pension
- Actual – this represents the remuneration received by each Executive Director for their performance in the year
- Maximum – this is calculated as the fixed elements and the maximum Annual Bonus and Long-term Incentive Plan awards and
- Remuneration arising as a result of share price movements or rights to dividends and other distributions have been excluded

Consideration of wider employee pay

As part of the annual Committee agenda, the Committee reviews the overall pay and bonus decisions in aggregate for the Group. This ensures that the pay and conditions in the wider Group are taken into account when determining directors' pay. In particular:

- Salary increases awarded over time to other employees are taken into account when considering salary increases for the Executive Directors and
- The bonus awards made to Directors are considered and made in the context of discretionary bonus awards made within the business. These are based upon Company performance, and are closely correlated to the Executive Director bonus awards.

The Company does not consult with employees when preparing the Executive Director remuneration policy. However, a number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

Consideration of shareholder views

As part of the shareholder consultation process during 2012/13, the Company proposed moving the payment date for awards under the Long-term Incentive Plan to three years and six months following the date of award. The Committee received and considered feedback from shareholders on this point, and decided to retain the existing framework under which the awards have a performance period of three years and then are released in tranches on the third, fourth and fifth anniversary of the date of grant.

The Committee will continue to be mindful of shareholder views when evaluating and setting ongoing remuneration strategy and commits to consulting with shareholders prior to any significant changes to remuneration policy.

The Annual report of remuneration (Implementation report)

Director remuneration for the year

Single total figure of remuneration for each Director

£ 000	FY2014							FY2013						
	Salary/ fees	Benefits	Pension	Annual Bonus	LTIP (no performance condition)	LTIP (performance condition)	Total	Salary/ fees	Benefits	Pension	Annual Bonus	LTIP (no performance condition)	LTIP (performance condition)	Total
S A Borrows	550	17	15	2 035	605	0	3 222	541	17	14	1 980	380	–	2 932
J S Wilson	400	19	53	750	–	0	1 222	400	19	55	800	–	0	1 274
Sir Adrian Montague	295	–	–	–	–	–	295	295	–	–	–	–	–	295
J P Asquith	84	–	–	–	–	–	84	81	–	–	–	–	–	81
A R Cox	68	–	–	–	–	–	68	65	–	–	–	–	–	65
D A M Hutchison	31	–	–	–	–	–	31	–	–	–	–	–	–	–
R H Meddings	90	–	–	–	–	–	90	87	–	–	–	–	–	87
W Mesdag	56	–	–	–	–	–	56	81	–	–	–	–	–	81
M G Verluyten	64	–	–	–	–	–	64	61	–	–	–	–	–	61

1 Benefits include a car allowance provision of health insurance and for Mrs Wilson the value of the Share Incentive Plan matching share awards

2 Pension for Mr Borrows is a salary supplement in lieu of pension contributions and the pension value for Mrs Wilson is the combination of the value of the Company contributions made to the 3i Retirement Plan on her behalf and the salary supplement in lieu of pension contributions from March 2014

3 Annual bonus awards made in respect of the current year are delivered as 60% cash immediately and 40% payable in shares deferred for four years subject to the malus/clawback policy. These shares are released in four equal annual instalments over the four years commencing June 2015 and carry the right to receive dividends and other distributions

4 In addition to the table above dividends or dividend equivalents on unvested deferred share awards were paid during the year (Mr Borrows £55k Mrs Wilson £13k)

5 The value shown in the LTIP (no performance condition) for Mr Borrows represents the award made in 2011 on joining the Company in recognition of awards forfeited on leaving his previous employment. The award value represents 171 087 shares vesting at a market price of 353.75 pence

6 The fees shown for the non-executive Directors include fees used to purchase shares in the Company

7 In addition to the fees shown above Mr Borrows retained directors' fees of £71k from The British Land Company PLC and £74k from Inchcape plc and Mrs Wilson retained directors' fees of £99k from Legal and General Group plc

Directors' remuneration report

FY2014 Annual bonus

The annual bonuses for Executive Directors for the year were awarded against a balanced scorecard agreed by the Committee in March 2013 based upon the strategic priorities announced in June 2012. The Committee uses the scorecard as a prompt and guide to judgment and considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.

Performance against the strategic priorities set out in the 2013 Annual report and accounts was as follows:

Strategic priority	Priority for 2013/14	Result
Create a leaner organisation with a cost base more closely aligned with its income	■ Reduce cumulative run-rate operating cost by £60 million ■ Cover operating costs with annual cash income on a run-rate basis	Over achieved
Improve consistency and discipline of investment processes and asset management approach	■ Grow Private Equity investment portfolio earnings through asset management improvement initiatives ■ Continue to re-establish investment track record through improved performance and new investment	Over achieved
Re-focus and re-shape the Private Equity business	■ Continue to manage intensively the existing portfolio and realise investments at values representing good uplifts to book value and strong cash-on-cash multiples, thereby optimising the value of the portfolio for 3i, its shareholders and its fund investors ■ Selective investing in our core markets using a combination of proprietary capital and third-party co-investment	Over achieved
Grow third-party AUM and income	■ Continue to explore opportunities to further grow and develop our three fund management platforms ■ Grow annual operating profit from fund management activities, demonstrating additional value beyond NAV	Over achieved
Improve capital allocation, focusing on enhanced shareholder distributions and re-investment in our business	■ Initiate additional shareholder distributions above the annual base dividend ■ Reduce gross interest payable to less than £60 million, excluding costs of early debt repayment	Over achieved

The Committee also took into account performance against the non-financial targets listed below, concluding that the Executive Directors have met or exceeded the Board's expectations in each case:

- Maintain good engagement with investors and the quality of the Group's shareholder register
- Rearticulate the people strategy of the Group
- Develop the strategic vision for the Group to the satisfaction of the Board
- Continue the transformation of the Group's culture

As a result of these achievements, taking all of the above into consideration in the round, the Committee awarded Mr Borrowes a bonus for the year of 370% of base salary (being 92.5% of his maximum bonus opportunity) and a bonus for the year to Mrs Wilson of 187.5% of base salary (being 75% of her maximum bonus opportunity).

Share awards vesting in 2013 subject to performance conditions

2010 Long-term incentive award

The long-term incentive award granted in 2010 to Mrs Wilson was subject to a performance condition which compared the growth in value of a shareholding in the Company over three years to June 2013 (averaged over a 60-day period) with the FTSE 100 Index (both with dividends reinvested). The table below shows the achievement against this condition and the resulting proportion of the award that vested in June 2013

Measure	Threshold		Maximum		Actual	
	Performance	% vesting	Performance	% vesting	Performance	% vesting
Growth in value for Company versus FTSE 100	Same as FTSE 100	35%	8% pa above FTSE 100	100%	(1.1)%	0%

2011 Long-term incentive award

The long-term incentive awards granted in July 2011 to Mrs Wilson and in November 2011 to Mr Borrows were subject to a performance condition based on annualised Total Return on Equity over the three financial years to 31 March 2014. The table below shows the achievement against this condition and the resulting proportion of the awards that will vest in June 2014

The performance condition for the award made to Mr Borrows in November 2011 included performance for the six month period to 30 September 2011, a period which preceded Mr Borrows joining the Group on 17 October 2011. The Group's total return for that six month period declined by £523 million

Measure	Threshold		Maximum		Actual	
	Performance	% vesting	Performance	% vesting	Performance	% vesting
Annualised three-year total return on equity	10% pa	20%	18% pa	100%	2.2%	0%

Change in the remuneration of the Chief Executive compared to other employees

The table below shows the percentage change in remuneration awarded to the Chief Executive and employees as a whole, between last year and this year

	Salary	Benefits	Bonus
Chief Executive	0%	0%	2.7%
All other employees	2.2%	0%	19.2%

Directors' remuneration report

Details of share awards granted in the year

LTIP

Performance share awards were granted to the two Executive Directors during the year as shown in the table below

Description of award	A performance share based award, which releases shares subject to satisfying the performance conditions, 50% on the third anniversary of grant and 25% on the fourth and fifth anniversaries
Face value	Chief Executive – 400% of salary, being 613,325 shares Group Finance Director – 250% of salary being 278,784 shares The share price used to make the award was the average mid-market closing price over the five working days starting with the day of the announcement of the 2013 annual results (358.7p)
Performance period	1 April 2013 to 31 March 2016
Performance targets	50% of the award is based on absolute TSR measured over the performance period and vests ■ 0% vesting below 10% pa TSR ■ 20% vesting at 10% pa TSR ■ Straight-line vesting between 10% and 18% pa TSR and ■ 100% vesting at 18% pa TSR 50% of the award is based on achieving strategic targets that align costs with income and improving capital allocation, with ■ Half of this is based on progress achieved covering the Group's operating costs with annual cash income and ■ Half of this is based on progress achieved in reducing remuneration costs relative to fee income 20% of this portion of the award will vest for threshold performance. The Committee will assess performance against the strategic targets at the end of the performance period and will use its judgment to determine vesting levels against an agreed framework The targets set for the strategic measures are commercially sensitive and are therefore not being disclosed in advance. At the end of the performance period and subject to commercial constraints, we commit to providing shareholders with as much context as possible on the framework used to assess performance against these targets and the rationale for the resulting vesting levels
Remuneration Committee discretion	The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed

As part of the review of Executive Director remuneration policy during FY2013, the Company proposed moving the payment date for awards under the Long-term Incentive Plan to three years and six months following the date of award. Awards were granted on this basis in June 2013, prior to the AGM.

However, the Committee received and considered feedback from shareholders on this point, and decided to revert to the previous framework under which the awards have a performance period of three years and then are released in tranches on the third, fourth and fifth anniversary of the date of grant.

The Executive Directors voluntarily agreed to the terms of the 2013 award already made to them being adjusted to reflect this. In return, the Committee agreed that if the individual ceased employment following the third anniversary of the date of grant the award would not be pro-rated for time.

Share Incentive Plan

During the year Mrs Wilson participated in the HMRC approved Share Incentive Plan which during the year allowed employees to invest up to £125 per month from pre-tax salary in ordinary shares (partnership shares) For each partnership share the Company grants two free ordinary shares (matching shares) which are normally forfeited if employment ceases within three years of grant Dividends are reinvested in further ordinary shares ("dividend shares")

During the year Mrs Wilson purchased 408 partnership shares and received 816 matching shares and 327 dividend shares at prices ranging between £3 296 and £4 144 per share, with an average price of £3 693

Pension arrangements

Mr Borrowes receives a salary supplement of 12% of pensionable salary in lieu of pension (£15k in FY2014)

Mrs Wilson is a member of the 3i Retirement Plan a defined contribution stakeholder pension scheme, which she joined with effect from 6 April 2011 During the year the Company made contributions of £48k to this plan and paid a salary supplement of £4k in respect of Mrs Wilson

Mrs Wilson was also a member of the 3i Group Pension Plan, a defined benefit contributory scheme in the year to 31 March 2014 Pension accrual ceased for all members with effect from 5 April 2011, although a link to final pensionable salary is maintained for existing accrual up to the date of leaving the Company Further details of the Plan are set out in Note 8 to the financial statements on pages 121 to 124

	Pensionable service	Normal retirement age	Scheme normal retirement date	Accrued pension at 31 March 2014 £ 000 pa	Transfer value of accrued benefit £ 000
J S Wilson	5	60	2027	14.7	395.0

1 The Plan closed to future accrual on 5 April 2011 and pensionable service ceased at this date No member contributions were paid into the Plan during the year

2 The increase in accrued pension shown reflects the difference between deferred pensions on leaving payable from age 60

3 The pension shown is a deferred pension payable from the Normal Retirement Age of 60

4 The transfer values have been calculated in accordance with regulations 7 to 7E of the Occupational Pension Schemes (Transfer Values) Regulations 1996

5 Additional voluntary contributions are excluded from the above table

Payments to past Directors

Mr Queen ceased his employment with the Group on 16 May 2012 and retained interests in two carried interest arrangements relating to his previous roles within the Group as Managing Partner Infrastructure and Managing Partner Growth Capital as previously disclosed During the year he received carried interest payments of £176 709 (Primary Infrastructure 2005-06) and £13,288 (Pan European Growth Capital 2005-06) He did not receive any payments other than these carried interest payments

Payments for loss of office

No payments to Directors for loss of office have been made in the year

Directors' remuneration report

Statement of Directors' shareholding and share interests

The Company's share ownership and retention policy requires Executive Directors to build up over time and thereafter maintain, a shareholding in the Company's shares equivalent to at least 3.0 times gross salary in the case of the Chief Executive and 1.5 times gross salary for the Group Finance Director. In addition, shareholding targets have been introduced for other members of Executive Committee at the 1.5 times gross salary level and for partners in the Group's businesses at 1.0 times gross salary.

Details of Directors' interests in the Company's shares as at 31 March 2014 are shown below. The share price on 31 March 2014 was £3.979.

	Shares					Current shareholding (% salary)
	Owned outright ¹	Deferred shares	Subject to performance	Unexercised share options	Shareholding requirement	
S A Borrows ²	8,909,332	569,748	2,553,993	–	300%	6400%
J S Wilson ²	67,500	111,513	1,147,122	21,170	150%	67%

		Shares owned outright
Sir Adrian Montague ²		80,707
J P Asquith ²		7,500
A R Cox ²		19,900
D Hutchison ²		966
R H Meddings ²		23,460
M G Verluyten ²		15,000

1 The share interests shown for Mrs Wilson include shares held in the 3i Group Share Incentive Plan. The owned outright column includes partnership shares under the SIP. The deferred shares column includes matching shares under the SIP. In addition, Mrs Wilson owns outright 1,038 B Shares.

2 Directors are restricted from hedging their exposure to the 3i share price.

3 From 1 April 2014 to 10 May 2014, Mrs Wilson became interested in a further 32 shares overall outright (SIP Partnership Shares) and a further 64 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

Performance graph and table

TSR Graph

This graph compares the Company's total shareholder return for the five financial years to 31 March 2014 with the total shareholder return of the FTSE 250 Index.

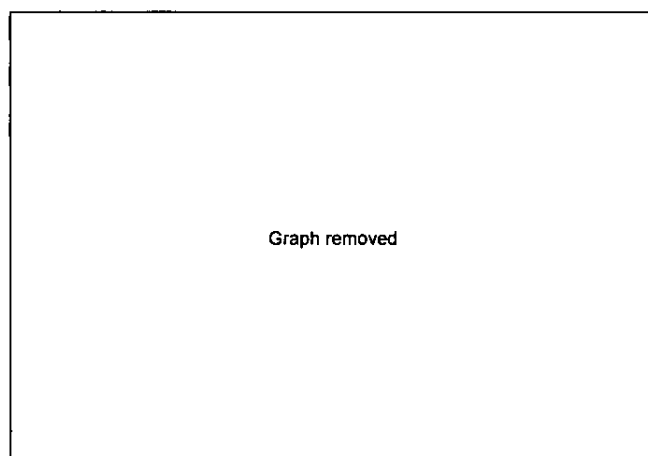


Table of historic Chief Executive data

Year	Chief Executive	Single figure of total remuneration £'000	Percentage of maximum bonus paid	Percentage of maximum LTIP vesting
FY2014	S A Borrows	3,222	92.5%	0%
FY2013 ¹	S A Borrows	2,932	90%	n/a
	M J Queen	429	0%	0%
FY2012	M J Queen	641	0%	0%
FY2011	M J Queen	1,305	54%	0%
FY2010	M J Queen	1,989	75%	0%

1 M J Queen ceased to be a Director on 16 May 2012. Mr Borrows was appointed Chief Executive on 17 May 2012 having previously been Chief Investment Officer.

Relative importance of spend on pay

	2013/14	2012/13	Change %
Remuneration	£77m	£84m	(8)%
Dividend	£114m	£76m	50%

Statement of implementation of the remuneration policy in the coming year

A Group-wide 3% increase to salaries will take place in 2014 which will also be applied to Executive Director salaries. No changes to benefits, pension arrangements or maximum levels of annual bonus or LTIP awards for Executive Directors have been made for the current year.

As part of the consultation with some of our key shareholders after the 2013 AGM, we are increasing the level of deferral of any future annual bonus award made to Executive Directors to 50%. This will also apply to all members of the Executive Committee.

The relevant performance targets for the annual bonus and long-term incentive awards being granted in respect of the financial year to 31 March 2015 are shown below.

Annual bonus scorecard

The annual bonuses for Executive Directors for FY2015 will be awarded against a balanced scorecard agreed by the Committee early in the financial year. The Committee will use the scorecard as a prompt and guide to judgment.

The annual bonus scorecard for FY2015 will be based on portfolio returns, investment operating profit and objectives relating to strategy, investor relations and culture. The Committee will also consider performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.

The Committee considers that the targets set for the performance measures are commercially sensitive and as permitted by the Regulations, are therefore not being disclosed in advance. We will report to shareholders next year on performance against these targets and the resulting bonus outcomes.

Long-term incentive targets

50% of the award is based on absolute TSR measured over the performance period and vests:

- 0% vesting below 10% pa TSR
- 20% vesting at 10% pa TSR,
- Straight-line vesting between 10% and 18% pa TSR, and
- 100% vesting at 18% pa TSR

50% of the award is based on relative TSR measured against the FTSE 250 Index over the performance period and vests:

- 0% for below median performance against the index
- 25% for median performance against the index
- 100% for upper quartile performance against the index and
- Straight-line vesting between median and upper quartile performance

Non-executive Director fees

The table below shows the non-executive Director fee structure as at 1 April 2014.

Chairman fee	£265,000 plus £30,000 of 31 shares
Non-executive Directors	
■ Board membership fee	£50,000 plus 2,500 31 shares
■ Senior Independent Director fee	£10,000
Committee fees	
■ Chairman	£20,000
■ Member	£4,000

Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.

Directors' remuneration report

Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee during the year

Remuneration Committee

Committee members during the year	Meetings attended in the year	Meetings eligible to attend in the year
J P Asquith (Chairman)	6	6
A R Cox	6	6
D A M Hutchison (from 1 December 2013)	2	2
W Mesdag (until 30 November 2013)	4	4

The Committee's terms of reference are available on the Company's website

During the year, the Committee received external independent advice from Kepler Associates (until September 2013) and Deloitte LLP (from October 2013)

The Committee decided to conduct a review of advisers during the year. The decision to appoint Deloitte as advisers with effect from October 2013 was led by the Committee Chairman in consultation with all other Committee members. Four potential advisers were interviewed and assessed against a range of requirements that were set by the Committee.

Both Kepler Associates and Deloitte are members of the Remuneration Consultants Group and as such voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. Kepler Associates did not provide any services to the Group during the year other than to the Remuneration Committee. During the year Deloitte LLP also provided 3i with certain tax advisory services. The Committee has reviewed the advice provided by both firms during the year and is satisfied that it has been objective and independent. The total fees for advice during the year were £87,695 (excluding VAT) of which £13,695 was paid to Kepler Associates and £74,000 to Deloitte.

The Chief Executive, the General Counsel, Company Secretary, Head of HR and the Remuneration Director attend Committee meetings by invitation, other than when their personal remuneration is being discussed.

Result of voting at the 2013 AGM

At the 2013 AGM, held on 18 July 2013, votes cast in respect of the Directors' remuneration report were

Resolution	Votes for	Votes against	Total votes cast	Votes withheld
Approval of the remuneration report	462,025,345 (78.99%)	122,906,743 (21.01%)	584,932,088	122,794,938

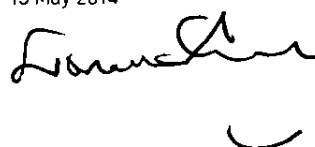
Audit

The tables in this report (including the Notes thereto) on pages 95 to 101 have been audited by Ernst & Young LLP.

By Order of the Board

Jonathan Asquith
Chairman, Remuneration Committee

13 May 2014



Audited financial statements

Statement of comprehensive income

for the year to 31 March

	Notes	2014 £m	2013 (restated) £m
Realised profits over value on the disposal of investments	2	146	55
Unrealised profits on the revaluation of investments	3	77	156
Fair value movements on investment entity subsidiaries		454	491
		677	702
Portfolio income			
Dividends		25	30
Income from loans and receivables		29	19
Fees receivable	4	7	4
Foreign exchange on investments		(45)	14
Gross investment return		693	769
Fees receivable from external funds		50	44
Operating expenses	5 6 7 8	(118)	(147)
Interest receivable	9	2	5
Interest payable	9	(54)	(101)
Movement in the fair value of derivatives	10	10	(6)
Exchange movements		(42)	(78)
Income/(expense) from fair value subsidiaries		(5)	(109)
Other (loss)/income		–	(3)
Carried interest			
Carried interest receivable from external funds	11	(1)	6
Carried interest and performance fees payable	11	(16)	(17)
Operating profit		519	363
Income taxes	12	(2)	(3)
Profit for the year		517	360
Other comprehensive income			
Exchange differences on translation of foreign operations		(50)	(8)
Re-measurements of defined benefit plans	8	11	21
Other comprehensive income for the year		(39)	13
Total comprehensive income for the year ('Total return ')		478	373
Earnings per share			
Basic (pence)	27	54.8	38.3
Diluted (pence)	27	54.5	38.2

Consolidated statement of changes in equity

for the year to 31 March

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Other reserves £m	Own shares £m	Total equity £m
2014 Group										
Total equity at the start of the year	718	780	43	17	292	701	487	–	(104)	2,934
Income for the year						392	125			517
Exchange differences on translation of foreign operations					(50)					(50)
Re-measurements of defined benefit plans						11				11
Total comprehensive income for the year	–	–	–	–	(50)	403	125	–	–	478
Share-based payments				8						8
Release on forfeiture of share options				(6)			6			–
Loss on sale of own shares						(15)			15	–
Ordinary dividends							(76)			(76)
Additional dividends						(38)				(38)
Issue of ordinary shares		2								2
Total equity at the end of the year	718	782	43	19	242	1,051	542	–	(89)	3,308
2013 Group (restated)										
Total equity at the start of the year	717	780	43	11	300	397	484	–	(105)	2,627
Income for the year						284	76			360
Exchange differences on translation of foreign operations					(8)					(8)
Re-measurements of defined benefit plans						21				21
Total comprehensive income for the year	–	–	–	–	(8)	305	76	–	–	373
Share-based payments				9						9
Release on forfeiture of share options				(3)			3			–
Loss on sale of own shares						(1)			1	–
Ordinary dividends							(76)			(76)
Issue of ordinary shares	1									1
Total equity at the end of the year	718	780	43	17	292	701	487	–	(104)	2,934

Company statement of changes in equity

for the year to 31 March

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Other reserves £m	Total equity £m
2014 Company								
Total equity at the start of the year	718	780	43	17	1,336	144	–	3,038
Profit for the year					70	11		81
Total comprehensive income for the year	–	–	–	–	70	11	–	81
Share-based payments				8				8
Release on forfeiture of share options				(6)		6		–
Ordinary dividends						(76)		(76)
Additional dividends					(38)			(38)
Issue of ordinary shares		2						2
Total equity at the end of the year	718	782	43	19	1,368	85	–	3,015

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Other reserves £m	Total equity £m
2013 Company								
Total equity at the start of the year	717	780	43	11	936	232	–	2,719
Profit for the year					400	(15)		385
Total comprehensive income for the year	–	–	–	–	400	(15)	–	385
Share-based payments				9				9
Release on forfeiture of share options				(3)		3		–
Ordinary dividends						(76)		(76)
Issue of ordinary shares	1							1
Total equity at the end of the year	718	780	43	17	1,336	144	–	3,038

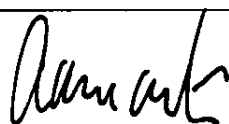
Statement of financial position

as at 31 March

	Notes	Group 2014 £m	Group (restated) 2013 £m	Group (restated) 2012 £m	Company 2014 £m	Company (restated) 2013 £m	Company (restated) 2012 £m
Assets							
Non-current assets							
Investments							
Quoted investments	13	258	243	393	258	243	392
Unquoted investments	13	1 279	1 437	475	1 283	1 443	478
Investments in investment entities	14	1 973	1 630	2 360	–	–	–
Investment portfolio		3 510	3 310	3 228	1 541	1 686	870
Carried interest receivable		8	10	25	8	9	24
Interests in Group and fair value entities	15	–	–	–	1 735	1 681	2 324
Intangible assets	16	10	10	–	–	–	–
Retirement benefit surplus	8	137	120	56	–	–	–
Property, plant and equipment	17	5	7	13	–	–	4
Derivative financial instruments		–	–	6	–	–	6
Deferred income taxes	12	1	1	2	–	–	–
Total non-current assets		3 671	3 458	3 330	3 284	3 376	3 228
Current assets							
Other current assets	18	72	65	96	303	118	105
Derivative financial instruments	20	2	4	7	2	4	7
Deposits		–	90	441	–	90	441
Cash and cash equivalents		643	610	640	605	573	541
Total current assets		717	769	1 184	910	785	1 094
Total assets		4 388	4 227	4 514	4 194	4 161	4 322
Liabilities							
Non-current liabilities							
Carried interest and performance fees payable		(26)	(20)	(14)	(2)	(1)	–
Acquisition related earn-out charges payable		(2)	(2)	(2)	(16)	(20)	(12)
Loans and borrowings	21	(849)	(855)	(1 358)	(849)	(855)	(1 152)
B shares		(6)	(6)	(6)	(6)	(6)	(6)
Retirement benefit deficit	8	(14)	(14)	(10)	–	–	–
Derivative financial instruments	20	–	(55)	(41)	–	(55)	(41)
Deferred income taxes	12	–	(2)	(2)	–	–	–
Provisions	22	(4)	(3)	(1)	–	–	–
Total non-current liabilities		(901)	(957)	(1 434)	(873)	(937)	(1 211)
Current liabilities							
Trade and other payables	23	(158)	(142)	(181)	(292)	(181)	(161)
Carried interest and performance fees payable		(6)	(16)	(33)	–	–	–
Acquisition related earn-out charges payable		–	–	–	(10)	–	–
Loans and borrowings	21	–	(164)	(231)	–	–	(231)
Derivative financial instruments	20	(4)	(5)	(1)	(4)	(5)	–
Current income taxes	12	(2)	–	(1)	–	–	–
Deferred income taxes	12	(1)	–	–	–	–	–
Provisions	22	(8)	(9)	(6)	–	–	–
Total current liabilities		(179)	(336)	(453)	(306)	(186)	(392)
Total liabilities		(1 080)	(1 293)	(1 887)	(1 179)	(1 123)	(1 603)
Net assets		3 308	2 934	2 627	3 015	3 038	2 719
Equity							
Issued capital	24	718	718	717	718	718	717
Share premium		782	780	780	782	780	780
Capital redemption reserve		43	43	43	43	43	43
Share-based payment reserve	25	19	17	11	19	17	11
Translation reserve	25	242	292	300	–	–	–
Capital reserve	25	1 051	701	397	1 368	1 336	936
Revenue reserve	25	542	487	484	85	144	232
Own shares	26	(89)	(104)	(105)	–	–	–
Total equity		3 308	2 934	2 627	3 015	3 038	2 719

Sir Adrian Montague
Chairman

13 May 2014



Cash flow statement

for the year to 31 March

	Group 2014 £m	Group (restated) 2013 £m	Company 2014 £m	Company 2013 £m
Cash flow from operating activities				
Purchase of investments	(114)	(82)	(575)	(259)
Proceeds from investments	452	353	704	639
Cash inflow/(outflow) from fair value subsidiaries	46	197	-	-
Portfolio interest received	6	5	6	5
Portfolio dividends received	25	22	25	30
Portfolio fees received	4	4	(2)	(1)
Fees received from external funds	52	42	-	-
Carried interest received	1	20	-	19
Carried interest and performance fees paid	(20)	(22)	-	-
Operating expenses	(125)	(155)	-	(53)
Interest received	3	7	3	7
Interest paid	(57)	(118)	(57)	(114)
Income taxes paid	(3)	(3)	-	-
Net cash flow from operating activities	270	270	104	273
Cash flow from financing activities				
Dividend paid	(114)	(76)	(114)	(76)
Repayment of short-term borrowings	(164)	(304)	-	(253)
Repurchase of long-term borrowings	-	(267)	-	(267)
Net cash flow from derivatives	(32)	11	(32)	11
Net cash flow from financing activities	(310)	(636)	(146)	(585)
Cash flow from investing activities				
Acquisition of management contracts	-	(8)	-	-
Purchase of property, plant and equipment	-	(1)	-	-
Proceeds on sale of property, plant and equipment	-	1	-	1
Net cash flow from deposits	90	351	90	351
Net cash flow from investing activities	90	343	90	352
Change in cash and cash equivalents	50	(23)	48	40
Cash and cash equivalents at the start of year	610	640	573	541
Effect of exchange rate fluctuations	(17)	(7)	(16)	(8)
Cash and cash equivalents at the end of year	643	610	605	573

Significant accounting policies

3i Group plc (the "Company") is a company registered in England and Wales. The Consolidated financial statements for the year to 31 March 2014 comprise the Financial statements of the Company and its consolidated subsidiaries (together referred to as the "Group"). Separate financial statements of the Company are also presented.

The accounting policies of the Company are the same as for the Group except where separately disclosed.

A number of key accounting policies are disclosed below, but where possible, accounting policies have been shown as part of the Note that they specifically relate to in order to assist in understanding.

The financial statements were authorised for issue by the Directors on 14 May 2014.

A Statement of compliance

These consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and their interpretations issued or adopted by the International Accounting Standards Board as adopted for use in the European Union (IFRS) and in accordance and compliance with the Companies Act 2006.

New standards and interpretations not applied

The IASB has issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

	Effective for period beginning on or after
IFRS 9 Financial instruments	1 January 2018
IAS 32 Amendment to offsetting financial assets and financial liabilities	1 January 2014
IAS 36 Recoverable amount disclosures for non financial assets – amendments to IAS 36	1 January 2014
IAS 39 Novation of derivatives and continuation of hedge accounting – amendments to IAS 39	1 January 2014

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the financial statements in the period of initial application and have decided not to adopt early.

The Group has applied IFRS 10 in line with the guidance given at the IFRIC meeting in January 2014 and supported by the IASB in March 2014.

Impact of the application of IFRS 10, 11, 12 and 13, and IAS 19

The Group applied for the first time IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 19 Employee Benefits (Revised 2011) that require restatement of previous financial statements. Further, the application of IFRS 12 Disclosure of Interests in Other Entities and IFRS 13 Fair Value Measurement resulted in additional disclosures in the consolidated financial statements.

The nature and the impact of each new standard and amendment are described below.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

Under IFRS 10 a large number of entities within the Group have been classified as investment entities. As a result they are no longer consolidated and are instead held at fair value.

Impact on statement of comprehensive income

As a result of this change in treatment the total return generated by the investment entities is no longer presented on a line-by-line basis but combined and shown as a new line in the Statement of comprehensive income – Fair value movements on investment entity subsidiaries. This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated into this line.

The impact of this change by line item is:

Realised profits over value on the disposal of investments (£140) million; Unrealised profits on the revaluation of investments (£94) million; Dividends (£13) million; Income from loans and receivables (£35) million; Fees receivable from external funds (£27) million; Operating expenses (£23) million; Interest receivable (£1) million; Carried interest receivable from external funds (£2) million; Carried interest and performance fees payable (£2) million; Income taxes (£3) million; Exchange movements (£102) million; Fair value movements on investment entity subsidiaries (£491) million; and Income/(expense) from fair value subsidiaries (£109) million. There is no overall change to total return.

The above amounts do not agree to the reconciliation on page 54 as differences are also caused by the reclassification of the Credit Opportunities Fund and the impact of IAS 19R.

Translation of investment entity subsidiaries which are non-sterling denominated will no longer be shown as part of other comprehensive income "Exchange differences on translation of foreign operations" and will now be included as part of the fair value movement on investment entity subsidiaries held at fair value. Consequently these translation amounts will no longer be shown as a movement in the translation reserve and it will become a movement in capital reserves. IFRS 10 has been retrospectively applied as if IFRS 10 was in effect from 1 April 2012. The translation reserve has been restated to reflect the impact of IFRS 10 for the year to 31 March 2012 by £157 million and for the year to 31 March 2013 by £338 million with corresponding movements in capital reserves.

Basic and diluted earnings per share of the Group have been restated as a result of adopting IFRS 10.

Impact on statement of financial position

The closing fair value of the net assets of the investment entities is now combined and stated in a new line "Investments in investment entities". This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated into this line.

The impact of this change by line item is:

Quoted investments (£188 million), Unquoted investments (£1,427 million), Carried interest receivable (£10 million), Intangible assets (£22 million), Other current assets (£20 million), Cash and cash equivalents (£46 million), Trade and other payables (£50 million), Carried interest and performance fees payable (£30 million), Current income taxes (£2 million), Provisions (£1 million) and Investment in investment entities (£1,630 million).

Cash balances held in investment entity subsidiaries are aggregated into the "Investments in investment entities" line and not consolidated. Intercompany balances between investment entity subsidiaries and consolidated Group entities which would have previously been eliminated on consolidation are no longer eliminated. There is no change to the net assets presented as a result of the adoption of IFRS 10, albeit that gross assets and gross liabilities have changed as a result of the changes to cash and intercompany balances. An opening balance sheet has also been provided this year to show the effect on the opening balances of the prior year.

Impact on cash flow statement

The cash flow statement is impacted by the adoption of IFRS 10 because the cash held by investment entity subsidiaries is no longer consolidated. It now forms part of the fair value of the investment entity subsidiary. Additionally, the cash flow statement now includes a new line to disclose the cash movements to and from investment entities: "Cash inflow/(outflow) from fair value subsidiaries". This has resulted in a restatement of prior year figures where previously consolidated line items are now aggregated and disclosed in these lines.

The impact of this change on cash and cash equivalents at 31 March 2013 is a reduction of £46 million and the change by line item is: Purchase of investments (£67 million), Proceeds from investments (£253 million), Portfolio interest received (£10 million), Portfolio dividends received (£21 million), Fees received from external funds (£28 million), Carried interest and performance fees paid (£8 million), Operating expenses (£36 million), Income taxes paid (£3 million), Acquisition of management contracts and other Debt Management business development (£10 million), Investment/Divestment into fair value subsidiaries (£197 million) and Cash and cash equivalents at the start of the year (£78 million).

The above amounts do not agree to the reconciliation on page 57 as differences are also caused by the reclassification of the Credit Opportunities Fund and the impact of IAS 19R.

IFRS 11 Joint Arrangements

The application of IFRS 11 had no material effect on the accounts of the Company or Group for the periods presented.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements and include additional disclosures for unconsolidated subsidiaries and unconsolidated structured entities. IFRS 12 disclosures and descriptions in relation to unconsolidated subsidiaries are provided in Notes 14 and 34 and structured entities impacted are provided in Note 32.

IFRS 13 Fair Value Measurement

The Group has adopted IFRS 13 which relates to the fair value measurement of assets and liabilities. In the current year, the methodology for calculating the fair value of its investment portfolio has been amended in respect of the loans, bonds and fixed income shares held in the investment portfolio. The Group will now value such instruments at fair value through profit and loss, rather than at amortised cost less impairment. This has no impact on the carrying value in the balance sheet. IFRS 13 requires more comprehensive disclosures around the sensitivities of Level 3 inputs that are not based on observable market data. The relevant additional disclosures are provided in Note 13.

IAS 19 Employee Benefits

A description of the impact on the financial statements is included in Note 8 to the financial statements.

Significant accounting policies

B Basis of preparation

The financial statements are presented in sterling, the functional currency of the Company, rounded to the nearest million pounds (£m) except where otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In the process of applying the Group's accounting policies management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Assessment as investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit and loss. Subsidiaries that provide investment related services or engage in permitted investment related activities with investees continue to be consolidated unless they are also investment entities. The criteria which define an investment entity are currently as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both, and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis

The Group's annual and interim accounts clearly state its objective of investing directly into portfolio investments and providing investment management services to investors for the purpose of generating returns in the form of investment income and capital appreciation. The Group has always reported its investment in portfolio investments at fair value. It also produces reports for investors of the funds it manages and its internal management report on a fair value basis. The exit strategy for all investments held by the Group is assessed initially at the time of the first investment and this is documented in the investment paper submitted to the Investment Committee for approval. Subsequently it is then reviewed at least twice a year during semi-annual portfolio review meetings.

The Board has also concluded that the Company meets the additional characteristics of an investment entity, in that it has more than one investment, the investments are predominantly in the form of equities and similar securities, it has more than one investor and its investors are not related parties. The Board has concluded that the Company therefore meets the definition of an investment entity. These conclusions will be reassessed on an annual basis for changes in any of these criteria or characteristics.

Application and significant judgments

A number of entities which the Group previously consolidated will now be recognised at fair value. The majority of the Group's portfolio is held through intermediate holding entities which are now fair valued at the entity level as opposed to consolidating the intermediate holding entities and fair valuing the underlying portfolio. In addition, the Group is deemed to control a limited partnership, an entity in which it holds 46% of the equity. Consequently this is also fair valued at the entity level with the proportion of value attributable to 3i's equity stake recognised. In coming to these conclusions a full consideration of the Group's ownership, other shareholder dispersion, the Group's role as agent or principal and other factors that lead to "control" have been considered.

The most significant estimates relate to the fair valuation of the investment portfolio, the fair valuation of each investment entity subsidiary and the IAS 19 valuation of the defined benefit scheme. The valuation methodology for the investment portfolio is disclosed in Note 13 and details of the valuation of the defined benefit pension scheme is shown in Note 8. As a result of IFRS 10, we are required to fair value each investment entity subsidiary and have assessed this to be equal to the net asset value of the investment entity subsidiary at the balance sheet date with the exception of one entity which we value on a sum of parts basis. All investment entity subsidiaries are accounted for using accounting policies that are consistent with the Group's, and the primary constituent of net asset value across investment entity subsidiaries is portfolio investment.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Statement of comprehensive income of the Company has been omitted from these financial statements in accordance with section 408 of the Companies Act 2006.

The accounting policies have been consistently applied across all Group entities for the purposes of producing these consolidated financial statements.

C Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control, as defined by IFRS 10, is achieved when the Group is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has

- Power over the investee (ie existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure to or rights to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including

- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

3i Group plc, the ultimate parent company of the Group, is an investment entity and, as such, does not consolidate the investment entities it controls. Most of the Group's interests in subsidiaries are recognised as fair value through profit or loss and measured at fair value. This represents a change in accounting policy in the current year, more details of which are provided in Notes 14, 15 and 32. Those subsidiaries which provide investment related services, such as advisory, management or employment services, are not classified at fair value through profit and loss and continue to be consolidated unless they additionally make investments, in which case they are fair valued.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the statement of financial position at fair value even though the Group may have significant influence over those companies.

(iii) Joint ventures

Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value.

(iv) Composition of the Group

The Group is made up of several different types of subsidiaries. The Group re-assesses the function performed by each type of subsidiary to determine its treatment under the IFRS 10 exemption from consolidation. The types of subsidiaries and their treatment under IFRS 10 are as follows:

General Partners (GPs) – Consolidated

- General Partners provide investment management services and do not hold any direct investments in portfolio assets. These entities are not investment entities.

Investment managers/advisers – Consolidated

- These entities provide investment related services through the provision of investment management or advice. They do not hold any direct investments in portfolio assets. These entities are not investment entities.

Investment managers/advisers which also hold investments – Fair valued

- These entities provide investment related services through the provision of investment management or advice and also hold investments in assets held for capital appreciation. These entities are classified as investment entities and therefore are held at fair value.

Holding companies of investment managers/advisers – Consolidated

- These entities provide investment related services through their subsidiaries. They do not hold any direct investment in portfolio assets and these entities are not investment entities.

Significant accounting policies

Limited Partnerships and other intermediate investment holding structures – Fair valued

- The Group makes investments in portfolio assets through its ultimate parent company as well as through other limited partnership and corporate subsidiaries which the Group has created to align the interests of the investment teams with the performance of the assets through the use of various carried interest schemes. The purpose of these limited partnerships and corporate holding vehicles, many of which also provide investment related services, is to invest for investment income and capital appreciation. These partnerships meet the definition of an investment entity and are classified at fair value through the profit and loss.

Portfolio investments – Fair valued

- Following the introduction of IFRS 10, the test for accounting subsidiaries has been altered to take wider factors of control as well as actual equity ownership into account. This has resulted in 36 investments being classified as accounting subsidiaries. In accordance with the investment entity exception, these entities have been held at fair value with movements in fair value going through the profit and loss account. Further details can be found in Note 13. With one exception (Palace Street I) none of these subsidiaries are a UK Companies Act subsidiary.

Structured entities – Fair valued

- The Group has interests in a number of unconsolidated structured entities, their current carrying value and a description of their activities is included in Note 32.

D Income

Gross investment return is equivalent to revenue for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs and includes foreign exchange movements in respect of the investment portfolio. Investment income is analysed into the following components:

- Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.
- Unrealised profits or losses on the revaluation of investments are the movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.
- Fair value movements on investment entity subsidiaries are the movement in the carrying value of group subsidiaries which are classified as investment entities under IFRS 10. The Group makes investments in portfolio assets through these entities which are usually limited partnerships or corporate subsidiaries.
- Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:
 - Dividends from equity investments are recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established.
 - Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan, the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.
 - Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.
- Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date investments are translated to sterling at the exchange rate ruling at that date.

E Exchange differences

(i) Foreign currency transactions

Transactions in currencies different from the functional currency of the Group entity entering into the transaction are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the exchange rate ruling at that date.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling using exchange rates ruling at the date the fair value was determined.

(ii) Financial statements of non-sterling operations

The assets and liabilities of operations whose functional currency is not sterling, including fair value adjustments arising on consolidation, are translated to sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of these operations are translated to sterling at rates approximating to the exchange rates ruling at the dates of the transactions. Exchange differences arising on retranslation are recognised in other comprehensive income and accumulated within a separate component of equity, the Translation reserve, and are released upon disposal of the non-sterling operation.

In respect of non-sterling operations, cumulative translation differences on the consolidation of non-sterling operations are being accumulated from the date of transition to IFRS 1 April 2004, and not from the original acquisition date.

F Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and overall costs of borrowing. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above and other short-term highly liquid investments that are readily convertible into cash and are subject to insignificant risk of changes in value, net of bank overdrafts.

(ii) Deposits

Deposits in the balance sheet comprise longer-term deposits with an original maturity of greater than three months.

Notes to the financial statements

1 Segmental analysis

Operating segments are the components of the entity whose results are regularly reviewed by the entity's chief-operating-decision-maker to make decisions about resources to be allocated to the segment and assess its performance. The chief-operating-decision-maker for the Group is considered to be the Chief Executive. The Group considers the businesses' activity on two bases. Firstly, as business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. Secondly, in line with the strategy of the Group, it considers separate Proprietary Capital and Fund Management businesses focused on investment returns and Fund Management profits respectively.

The performance of the business divisions is primarily assessed based on Gross Investment Return.

The Proprietary Capital segment is assessed based on Operating profit before carry which comprises Gross Investment Return, direct costs and a synthetic fee paid to the fund manager and funding expenses.

The Fund Management segment is assessed based on Operating profit before carry which comprises fees receivable from external funds and a synthetic fee paid from the Proprietary Capital segment offset by operating expenses of the investment teams.

In line with IFRS 8, the tables below are presented on the investment basis which is the basis used by the chief-operating-decision-maker to monitor the performance of the Group. A description of the investment basis is provided on page 53 and a reconciliation of the investment basis to the IFRS financial statements is provided on pages 54 to 57.

Investment basis	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Year to 31 March 2014							
Realised profits over value on the disposal of investments	201	1	–	202	202	–	202
Unrealised profits/(losses) on the revaluation of investments	478	(13)	10	475	475	–	475
Portfolio income							
Dividends	13	21	10	44	44	–	44
Income from loans and receivables	46	–	4	50	50	–	50
Fees receivable/(payable)	9	–	(2)	7	4	3	7
Foreign exchange on investments	(100)	(7)	(6)	(113)	(113)	–	(113)
Gross Investment Return	647	2	16	665	662	3	665
Fees receivable from external funds	17	24	32	73	–	73	73
Synthetic fees	–	–	–	–	(51)	51	–
Operating expenses ¹	(79)	(23)	(34)	(136)	(28)	(108)	(136)
Interest receivable				3	3	–	3
Interest payable				(54)	(54)	–	(54)
Movement in the fair value of derivatives				10	10	–	10
Exchange movements				(3)	(3)	–	(3)
Other (loss)/income				–	–	–	–
Operating profit before carry				558	539	19	558
Carried interest							
Carried interest receivable from external funds	(1)	–	4	3			3
Carried interest and performance fees payable	(82)	–	(3)	(85)			(85)
Acquisition related earn-out charges	–	–	(6)	(6)			(6)
Operating profit				470			470
Income taxes				(3)			(3)
Other comprehensive income							
Re-measurements of defined benefit plans				11			11
Total return				478			478
Net divestment/(investment)							
Realisations	669	2	6	677	677		677
Cash investment	(276)	–	(61)	(337)	(337)		(337)
	393	2	(55)	340	340		340
Balance sheet							
Value of investment portfolio at the end of the year	2935	487	143	3565	3565		3565

¹ Includes restructuring costs of £7 million, £1 million and £1 million for Private Equity, Infrastructure and Debt Management respectively and £1 million and £8 million for Proprietary Capital and Fund Management respectively.

Investment basis	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Year to 31 March 2013							
Realised profits over value on the disposal of investments	190	–	–	190	190	–	190
Unrealised profits/(losses) on the revaluation of investments	250	(2)	5	253	253	–	253
Portfolio income							
Dividends	22	18	6	46	46	–	46
Income from loans and receivables	52	–	1	53	53	–	53
Fees receivable/(payable)	4	–	–	4	4	–	4
Foreign exchange on investments	44	6	2	52	52	–	52
Gross Investment Return	562	22	14	598	598	–	598
Fees receivable from external funds	19	21	31	71	–	71	71
Synthetic fees	–	–	–	–	(56)	56	–
Operating expenses ¹	(114)	(24)	(32)	(170)	(30)	(140)	(170)
Interest receivable				6	6	–	6
Interest payable				(101)	(101)	–	(101)
Movement in the fair value of derivatives				(6)	(6)	–	(6)
Exchange movements				(22)	(22)	–	(22)
Other (loss)/income				(3)	(3)	–	(3)
Operating profit before carry				373	386	(13)	373
Carried interest							
Carried interest receivable from external funds	4	1	(1)	4			4
Carried interest and performance fees payable	(11)	(2)	1	(12)			(12)
Acquisition related earn-out charges	–	–	(7)	(7)			(7)
Operating profit				358			358
Income taxes				(6)			(6)
Other comprehensive income							
Re-measurements of defined benefit plans				21			21
Total return				373			373
Net divestment/(investment)							
Realisations	575	31	–	606	606		606
Cash investment	(121)	(5)	(23)	(149)	(149)		(149)
	454	26	(23)	457	457		457
Balance sheet							
Value of investment portfolio at the end of the year	2 707	507	81	3 295	3 295		3 295

1 Includes restructuring costs of £23 million, £5 million and £2 million for Private Equity, Infrastructure and Debt Management respectively and £6 million and £24 million for Proprietary Capital and Fund Management respectively.

Notes to the financial statements

1 Segmental analysis (continued)

Investment basis	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
Year to 31 March 2014						
Gross investment return						
Realised profits over value on the disposal of investments	77	89	28	7	1	202
Unrealised profits/(losses) on the revaluation of investments	33	357	124	(39)	–	475
Portfolio income	47	36	16	2	–	101
Foreign exchange on investments	(1)	(38)	(36)	(38)	–	(113)
	156	444	132	(68)	1	665
Net divestment/(investment)						
Realisations	218	343	70	43	3	677
Cash Investment	(41)	(238)	(58)	–	–	(337)
	177	105	12	43	3	340
Balance sheet						
Value of investment portfolio at the end of the year	1 058	1 817	361	325	4	3 565
Investment basis						
Year to 31 March 2013						
Gross investment return						
Realised profits over value on the disposal of investments	56	25	107	3	(1)	190
Unrealised profits/(losses) on the revaluation of investments	89	197	27	(61)	1	253
Portfolio income	48	38	14	2	1	103
Foreign exchange on investments	1	16	10	24	1	52
	194	276	158	(32)	2	598
Net divestment/(investment)						
Realisations	150	231	222	3	–	606
Cash Investment	(4)	(79)	(61)	(5)	–	(149)
	146	152	161	(2)	–	457
Balance sheet						
Value of investment portfolio at the end of the year	1 096	1 494	262	437	6	3 295

2 Realised profits over value on the disposal of investments

	2014 Unquoted investments £m	2014 Quoted investments £m	2014 Total £m
Realisations	441	11	452
Valuation of disposed investments	(297)	(9)	(306)
Investments written off	–	–	–
	144	2	146
Of which			
– profit recognised on realisations	148	2	150
– losses recognised on realisations	(4)	–	(4)
	144	2	146

	2013 Unquoted investments (restated) £m	2013 Quoted investments (restated) £m	2013 Total (restated) £m
Realisations	202	151	353
Valuation of disposed investments	(147)	(151)	(298)
Investments written off	–	–	–
	55	–	55
Of which			
– profit recognised on realisations	67	–	67
– losses recognised on realisations	(12)	–	(12)
	55	–	55

3 Unrealised profits/(losses) on the revaluation of investments

	2014 Unquoted investments £m	2014 Quoted investments £m	2014 Total £m
Movement in the fair value of investments	63	14	77
Of which			
– unrealised gains	132	14	146
– unrealised losses	(69)	–	(69)
	63	14	77

	2013 Unquoted investments (restated) £m	2013 Quoted investments (restated) £m	2013 Total (restated) £m
Movement in the fair value of investments	140	16	156
	140	16	156
Of which			
– unrealised gains	265	16	281
– unrealised losses	(125)	–	(125)
	140	16	156

Notes to the financial statements

4 Fees receivable

	2014 £m	2013 (restated) £m
Fees receivable	9	6
Deal-related costs	(2)	(2)
	7	4

Fees receivable include fees arising from the ongoing management of the portfolio together with fees arising from making investments. Deal-related costs represent fees incurred on aborted deals and fees incurred in the process of acquiring, managing or realising an investment.

5 Operating expenses

Operating expenses recognised in the IFRS Statement of comprehensive income include the following amounts:

	2014 £m	2013 (restated) £m
Depreciation of property, plant and equipment	2	1
Audit fees	2	2
Staff costs (Note 6)	69	71
Restructuring and redundancy costs	9	29

The above numbers exclude amounts incurred in entities now accounted for as investment entity subsidiaries and subsequently held at fair value under IFRS 10. Amortisation costs of £1 million (2013: £1 million) and staff costs of £8 million (2013: £13 million) were incurred in these entities and therefore totalled £1 million (2013: £1 million) and £77 million (2013: £84 million) respectively.

Services provided by the Group's auditors

During the year the Group obtained the following services from the Group's auditors, Ernst & Young LLP. The amounts below are recognised on an investment basis as this discloses all of the fees paid to the auditors.

	2014 £m	2013 £m
Audit services		
Statutory audit		
– Company	13	13
– UK subsidiaries	0.5	0.5
– Overseas subsidiaries	0.2	0.2
Audit-related regulatory reporting	–	–
	20	20
Non-audit services		
Other assurance services	0.2	0.2
Investment due diligence	0.2	0.1
Tax services (compliance and advisory services)	0.1	0.1
	2.5	2.4

Non-audit services

These services are services that could be provided by a number of firms and include general consultancy work. Work is allocated to the auditors only if it does not impact the independence of the audit firm.

In addition to the above, Ernst & Young LLP has received fees from investee companies. It is estimated that Ernst & Young LLP receive less than 20% of the total investment-related fees paid to the four largest accounting firms.

Ernst & Young LLP also acts as auditor to the 3i Group Pension Plan. The appointment of the auditors to this Plan and the fees paid in respect of the audit are agreed by the trustees who act independently from the management of the Group. The aggregate fees paid to the Group's auditors for audit services to the pension scheme during the year were less than £0.1 million (2013: less than £0.1 million).

6 Staff costs

The table below is prepared in accordance with Companies Act requirements, which is consistent with the Investment basis. Under IFRS the total staff costs in the year would be £69 million (2013: £71 million) as recognised in Note 5.

	2014 £m	2013 £m
Wages and salaries	57	66
Social security costs ¹	10	9
Share-based payment costs (Note 7)	6	4
Pension costs	4	5
	77	84

¹ Excludes £1 million of social security cost included in restructuring and redundancy costs (2013: £4 million)

Under the Investment basis, the average number of employees during the year was 277 (2013: 358). Under IFRS, the average number of employees during the year was 269 (2013: 266) which reflects that a number of employees are employed by investment entity subsidiaries.

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

	2014 £m	2013 £m
Fixed staff costs	46	52
Variable staff costs	31	32
	77	84

7 Share-based payments

Accounting policy:

The costs of share-based payments made by the Company in respect of subsidiaries' employees are treated as additional investments in those subsidiaries.

The Group has equity-settled and cash settled share-based payment transactions with certain employees. Equity settled schemes are measured at fair value at the date of grant, which is then recognised in the Statement of comprehensive income on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of an appropriate model. In valuing equity-settled transactions, no account is taken of any vesting conditions other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative charges since the previous balance sheet is recognised in the Statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash settled share-based payment transactions are recognised in the Statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash settled share-based payment transactions are adjusted for the forfeitures of the participants' rights that no longer meet the plan requirements as well as for early vesting.

Share-based payments are in certain circumstances made in lieu of annual cash bonuses or carried interest payments. The cost of the share-based payments is allocated either to operating expenses (bonuses) or carried interest depending on the original driver of the award. Executive Director Long Term Incentives are allocated to operating expenses.

The total cost recognised in the Statement of comprehensive income is shown below.

	2014 £m	2013 (restated) £m
Share options ¹	–	(1)
Share awards included as operating expenses ¹	6	4
Share awards included as carried interest ¹	2	6
Cash settled share awards	2	1
	10	10

¹ Credited to equity

Notes to the financial statements

7 Share-based payments (continued)

The features of the Group's share schemes are set out on pages 87 to 102. For legal, regulatory or practical reasons certain participants may be granted 'phantom awards' under these schemes which are intended to replicate the financial effects of a share award without entitling the participant to acquire shares. The carrying amount of liabilities arising from share-based payment transactions at 31 March 2014 is £4 million (2013: £2 million). The intrinsic value of liabilities arising from share-based payment transactions which have vested by 31 March 2014 is £nil (2013: £nil).

The following information shows details of the share-based payment awards made during the year

Grant date	Share awards June 2013 December 2013	Cash settled share awards June 2013
Vesting period	3–4 years	3 years
Life of the award	10 years	10 years
Ongoing valuation methodology	Share price at grant	Balance sheet date closing price
Weighted average value of awards granted at grant date	3.45	3.45

Share options

At 31 March 2014 there were 3.7 million outstanding options for the Performance share awards (non-market condition). Due to a significant loss on return in the first year, the minimum vesting hurdle of a 10% Group return on opening equity over three years is not expected to be achieved.

Share awards

Details of share awards outstanding during the year are as follows

	2014	2013
Outstanding at the start of the year	13,773,834	16,698,893
Granted	6,058,327	2,746,884
Exercised	(1,503,366)	(1,710,877)
Lapsed	(874,032)	(5,500,856)
Outstanding at the end of year	17,454,763	13,773,834

The awards outstanding at the end of the year have a weighted average contractual life of 4.74 years (2013: 6.95 years). The cost of share awards is spread over the vesting period of two to four years.

A summary of the vesting conditions of share awards is as follows

Performance share awards (market condition)

The performance condition for Performance shares issued before July 2011 is based on the outperformance of the theoretical growth in value of a shareholding in the Company (with dividends reinvested) for the three-year performance period from grant (averaged over a 60-day period) compared to the growth in value of the FTSE 100 Index (with dividends reinvested) adjusted for mergers, demergers and de-listings over that period.

Performance share awards (non market condition)

Performance shares issued after June 2011 will vest, subject to a vesting scale, if the annualised growth of the Group's return on opening equity during the three-year performance period equals or exceeds 10% per annum.

Performance-based awards

Performance-based share awards are made to certain investment executives. These plans operate in a similar format to a carry scheme where a percentage of shares will vest once a realised profit hurdle has been achieved on a defined group of assets.

Deferred bonus plan

Certain employees receive an element of their bonus as a conditional award of shares which vest either in equal tranches annually over three or four years or at the end of three years. The awards are not subject to a performance condition. The fair value of the deferred shares is the share price at the date of the award.

Share Incentive Plan

Eligible UK employees may participate in a HM Revenue and Customs approved Share Incentive Plan intended to encourage employees to invest in the Company's shares. Accordingly it is not subject to a performance condition. During the year participants invested up to £125 per month from their pre-tax salaries in the Company's shares (referred to as partnership shares). For each share so acquired the Company grants two free additional shares (referred to as matching shares) which are normally subject to forfeiture if the employee ceases to be employed (other than for certain permitted reasons) within three years of grant. From 6 April 2014 the limit has been increased to £150 per month.

Employee Trust

The Group has established the 3i Group Employee Trust which holds shares in 3i Group plc which can be used to meet its obligations under certain share schemes. The Trustee has full discretion as to the application of trust assets. However, in accordance with IFRS 10, 3i Group plc is considered the ultimate controlling party for accounting purposes and the operations of the 3i Group Employee Trust are consolidated by the Group.

8 Retirement benefits

Accounting policy:

Payments to defined contribution retirement benefit plans are charged to the Statement of comprehensive income as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Interest on the net defined benefit liability/asset, calculated using the discount rate used to measure the defined benefit obligation, is recognised in the Statement of comprehensive income. Re-measurement gains or losses are recognised in full as they arise in other comprehensive income.

A retirement benefit deficit is recognised in the balance sheet to the extent that the present value of the defined benefit obligations exceeds the fair value of plan assets.

A retirement benefit surplus is recognised in the balance sheet where the fair value of plan assets exceeds the present value of the defined benefit obligations limited to the extent that the Group can benefit from that surplus.

Retirement benefit plans

(i) Defined contribution plans

The Group operates a number of defined contribution retirement benefit plans for qualifying employees throughout the Group. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state managed retirement benefit plan operated by the country's government. 3i Europe plc's French branch is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund these benefits.

The total expense recognised in the Statement of comprehensive income is £3 million (2013: £4 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date.

(ii) Defined benefit plans

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK (the Plan). The Plan is approved by HMRC for tax purposes and is operated separately from the Group and managed by an independent set of Trustees, whose appointment is determined by the Plan's documentation. The Plan is subject to UK funding regulations, which require the Group and the Trustees to agree a funding strategy and contribution schedule where necessary.

The Plan has not been offered to new employees joining 3i since 1 April 2006. The Plan was closed to the future accrual of benefits by members with effect from 5 April 2011, although the final salary link will be maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. The Trustees are responsible for managing and investing the Plan's assets and for monitoring the Plan's funding position. As the Plan is now closed to future accrual, measures have been taken to de-risk the Plan through changes to its investment policy.

IAS 19 (Revised) became effective for accounting periods beginning after 1 January 2013, and as a result prior period financial statements have been restated to reflect the impact of the retrospective application of the standard. The main effect is that the expected returns on pension scheme assets and the interest cost on defined benefit obligations have been replaced by interest on the net defined benefit liability/asset, calculated using the discount rate used to measure the defined benefit obligation. These amendments have been retrospectively applied and the prior period comparative figures restated accordingly. The result of this is a £4 million increase in interest payable and a £4 million increase in re-measurement gain included in other comprehensive income for the year ended 31 March 2013. The estimated effect on the current period figures is an increase in interest payable of £4 million and an increase in re-measurement gain of £4 million.

Notes to the financial statements

8 Retirement benefits (continued)

The valuation of the Plan has been updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2014. This included an update to the membership data as part of the full triennial actuarial valuation (effective date 30 June 2013) that was completed in March 2014.

Employees in Germany and Spain are entitled to a pension based on their length of service. 3i Deutschland GmbH and the German and Spanish branches of 3i Europe plc contribute to individual investment policies for their employees and have agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of these investment policies intended to cover pension liabilities is £1 million (2013: £3 million) and the future liability calculated by German and Spanish actuaries is £15 million (2013: £17 million). The amounts recognised in profit/loss for the year and other comprehensive income for these schemes are a £1 million expense (2013: £1 million expense) and a £1 million gain (2013: £3 million expense) respectively.

The amount recognised in the Statement of financial position in respect of the Group's defined benefit plans are as follows:

	2014 £m	2013 £m
Present value of funded obligations	687	720
Fair value of the Plan assets	(898)	(904)
Asset restriction	74	64
Retirement benefit surplus in respect of the Plan	(137)	(120)
Retirement benefit deficit in respect of other defined benefit schemes	14	14

The asset restriction relates to tax that would be deducted at source in respect of a refund of the Plan surplus.

Amounts recognised in the Statement of comprehensive income in respect of the Plan are as follows:

	2014 £m	2013 (restated) £m
Included in interest payable (Note 9)		
Interest income on net defined benefit asset	(4)	(3)
Included in other comprehensive income		
Re-measurement (gain)/loss	(17)	(37)
Asset restriction	7	13
Total re-measurement (gain)/loss and asset restriction	(10)	(24)
Total	(14)	(27)

Changes in the present value of the defined benefit obligation were as follows:

	2014 £m	2013 (restated) £m
Opening defined benefit obligation	720	693
Interest on Plan liabilities	31	31
Re-measurement (gain)/loss		
– (gain)/loss from change in demographic assumptions	11	–
– (gain)/loss from change in financial assumptions	(7)	34
– experience (gains)/losses	(41)	(i)
Benefits paid	(27)	(37)
Closing defined benefit obligation	687	720

Changes in the fair value of the Plan assets were as follows

	2014 £m	2013 (restated) £m
Opening fair value of the Plan assets	904	798
Interest on Plan assets	38	36
Actual return on Plan assets less interest on Plan assets	(20)	70
Employer contributions	3	37
Benefits paid	(27)	(37)
Closing fair value of the Plan assets	898	904

Contributions paid to the Plan are related party transactions as defined by IAS 24 Related party transactions

The fair value of the Plan assets at the balance sheet date is as follows

	2014 £m	2013 £m
Equities	198	318
Corporate bonds	207	235
Gilts	482	341
Other	11	10
	898	904

The Plan's assets are all invested with Legal and General Investment Management in quoted and liquid funds

The Plan assets do not include any of the Group's own equity instruments nor any property in use by the Group

Changes in the asset restriction were as follows

	2014 £m	2013 (restated) £m
Opening asset restriction	64	49
Interest on asset restriction	3	2
Re-measurements	7	13
Closing asset restriction	74	64

The asset restriction relates to tax that would be deducted at source in respect of a refund of the Plan surplus

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows

	2014	2013
Discount rate	4.5%	4.4%
Expected rate of salary increases	5.9%	5.8%
Expected rate of pension increases	3.5%	3.4%
Retail Price Index (RPI) inflation	3.4%	3.3%
Consumer Price Index (CPI) inflation	2.4%	2.6%

In addition, it is assumed that members exchange 25% of pension for lump sum at retirement on the conversion terms in place at the previous actuarial valuation with an allowance for the terms to increase in future. Following the completion of the full actuarial valuation as at 30 June 2013, the latest conversion terms have been reflected in the defined benefit obligation as at 31 March 2014. The impact of allowing for the latest conversion terms has been to increase the defined benefit obligation by around £13 million.

The duration of the Plan's defined benefit obligation at the accounting date was around 21 years. The financial assumptions adopted are appropriate for a pension scheme with the Plan's maturity.

Notes to the financial statements

8 Retirement benefits (continued)

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2014 is 80% of the S1NA Light tables allowing for improvements from 2003 in line with the CMI 2012 core projections with a long-term annual rate of improvement of 1.5% (31 March 2013: 80% of the PNA00 tables allowing for improvements from 2000 in line with the CMI 2009 core projections with a long-term annual rate of future improvement of 1.5%). The life expectancy of a male member reaching age 60 in 2034 (2013: 2033) is projected to be 33.3 (2013: 33.2) years compared to 31.0 (2013: 30.7) years for someone reaching 60 in 2014.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is

	Change in assumption	Impact on defined benefit obligation
Discount rate	Decrease by 0.1%	Increase by £9 million
Retail Price Index (RPI) inflation	Increase by 0.1%	Increase by £8 million
Life expectancy	Increase by 1 year	Increase by £11 million

The above sensitivity analysis is based on changing one assumption whilst all others remain constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Through its defined benefit plan the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	A fall in the value of the Plan's assets may reduce the value of the defined benefit surplus and could affect the future funding requirements. To reduce the volatility of the Plan's assets, the Trustees have implemented an investment strategy that reduces the Plan's equity holdings by switching them to bonds over time. The Plan's assets are also diversified across different asset classes.
Changes in bond yields	A decrease in corporate bond yields will increase the Plan's IAS 19 defined benefit obligation. However, the Plan holds a proportion of its assets in corporate bonds and so any increase in the defined benefit obligation would be partially offset by an increase in the value of the Plan's assets.
Inflation risk	The Plan's defined benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the Plan's assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation could reduce or eliminate the defined benefit surplus.
Life expectancy	The Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's defined benefit obligation.

As the Plan was closed to future accrual of benefits by members with effect from 5 April 2011, the Group ceased to make regular contributions to the Plan in the year to 31 March 2012.

The triennial actuarial funding valuation as at 30 June 2013 was completed in March 2014. The results of that valuation showed that the plan had an actuarial surplus of £1 million at 30 June 2013 and as a result the Group is not required to make contributions to the Plan at this time. The contingent asset arrangement entered into during FY2013, details of which are provided in Note 31, remains in place. The next triennial actuarial funding valuation exercise will be based on the financial position as at 30 June 2016.

9 Net interest payable

	2014 £m	2013 (restated) £m
Interest receivable		
Interest on cash and cash equivalents	2	5
	2	5
Interest payable		
Interest on loans and borrowings	(58)	(103)
Net finance (expense)/income on pension plan	4	2
	(54)	(101)
Net interest payable	(52)	(96)

10 Movement in the fair value of derivatives

Accounting policy

Derivative financial instruments may be used to manage the risk associated with foreign currency fluctuations of the investment portfolio and changes in interest rates on its borrowings. In such circumstances this is achieved by the use of foreign exchange contracts and interest rate swaps. All derivative financial instruments are held at fair value.

Derivative financial instruments are recognised initially at fair value on the contract date and subsequently re-measured to the fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts for contracts with similar maturity profiles. The valuation technique incorporates foreign exchange spot and forward rates, and interest rates as inputs, and uses present value calculations. The fair value of interest rate swaps is determined with reference to future cash flows and current interest and exchange rates. This represents the replacement cost of the instruments at the balance sheet date.

No contracts are designated as hedging instruments, as defined in IAS 39, and consequently all changes in fair value of financial instruments are taken to the Statement of comprehensive income.

	2014 £m	2013 (restated) £m
Interest rate swaps	11	(8)
Forward foreign exchange contracts	(1)	2
	10	(6)

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Statement of comprehensive income. During the year, a £12 million gain (2013: £11 million loss) was recognised in exchange movements in relation to forward foreign exchange contracts. Also during the year, the only residual long-term interest rate swap was closed out.

11 Carried interest and performance fees payable

Accounting policy:

Carried interest receivable

The Group earns a share of profits (carried interest receivable) from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions.

Carried interest receivable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

Carried interest and performance fees receivable include amounts receivable from Private Equity, Infrastructure and Debt Management funds. Each scheme is separately reviewed at the balance sheet date, and an accrual for carried interest receivable made once the performance conditions in the scheme have been met.

Carried interest payable

The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest payable" is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest schemes. Carried interest payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual.

Under IFRS 10, where carry payable reduces the fair value of an investment entity subsidiary, that movement is recorded through Fair value movements on investment entity subsidiaries. An additional £69 million of carry payable was recognised in these entities (2013: £(5) million reduction).

	2014 £m	2013 (restated) £m
Carried interest and performance fees receivable from external funds	(1)	6
Carried interest and performance fees payable	(16)	(17)
	(17)	(11)

Notes to the financial statements

12 Income taxes

Accounting policy

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the Statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the Statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit (temporary differences), and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Where there are taxable differences arising on investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax liabilities are recognised except where the Group is able to control reversal of the temporary difference and it is probable that the temporary differences will reverse in the foreseeable future.

Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, where there are deductible temporary differences arising from investments in subsidiaries, branches and associates, and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that both the temporary differences will reverse in the foreseeable future and taxable profits be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill and other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

	2014 £m	2013 (restated) £m
Current taxes		
Current year	(4)	(3)
Deferred taxes		
Deferred income taxes	2	–
Total income taxes in the Statement of comprehensive income	(2)	(3)

Reconciliation of income taxes in the Statement of comprehensive income

The tax charge for the year is different to the standard rate of corporation tax in the UK currently 23% (2013 24%) and the differences are explained below

	2014 £m	2013 (restated) £m
Profit before tax	519	363
Profit before tax multiplied by rate of corporation tax in the UK of 23% (2013 24%)	(119)	(87)
Effects of		
Utilisation of previously unrecognised deferred tax	7	9
Non-taxable dividend income	6	7
Foreign tax	(4)	(3)
Capital profits	137	125
Excess tax losses arising in the period	(29)	(54)
Total income taxes in the Statement of comprehensive income	(2)	(3)

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return will be largely non-taxable.

Including £3 million of tax charges incurred in fair valued entities, the total tax charge for the Group was £5 million. Under the Investment basis presentation of the £5 million total tax charge, £1 million has been recognised as a reduction of realised profits and £1 million as a reduction in value growth because these tax charges relate to two specific overseas investments.

Deferred income taxes

	2014 £m	2013 (restated) £m
Opening deferred income tax liability		
Tax losses	10	10
Income in accounts taxable in the future	(12)	(12)
Other	1	1
	(1)	(1)
Recognised through Statement of comprehensive income		
Tax losses utilised	2	-
	2	-
Recognised on acquisition		
Income in accounts taxable in the future	(1)	-
	(1)	-
Closing deferred income tax liability		
Tax losses	12	10
Income in accounts taxable in the future	(13)	(12)
Other	1	1
	-	(1)

At 31 March 2014 the Group had carried forward tax losses of £1,360 million (2013: £1,242 million), capital losses of £78 million (2013: £68 million) and other temporary differences of £12 million (2013: £8 million). It is unlikely that the Group will generate sufficient taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 20% (2013: 23%).

Notes to the financial statements

13 Investment portfolio

Accounting policy.

Investments are recognised and de-recognised on the date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment. The Group manages its investments with a view to profiting from the receipt of investment income and capital appreciation from changes in the fair value of equity investments.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted investments, including both equity and loans, are designated at fair value through profit and loss and are subsequently carried in the balance sheet at fair value. Fair value is measured using the International Private Equity and Venture Capital valuation guidelines (IPEV) details of which are available in 'Portfolio valuation – an explanation' on pages 156 to 158.

All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, applying 3i Group's valuation policies.

Interest-bearing loans accrue interest which is either settled in cash or capitalised on a regular basis and included as part of the principal loan balance. The capitalisation of accrued interest is treated as part of investment additions during the year. If the fair value of an investment is assessed to be below the principal value of the loan, the Group recognises a provision against any interest income accrued from the date of the assessment going forward. Capitalisation at nil value is the term used to describe the capitalisation of accrued interest which has been fully provided for. These transactions are disclosed as additions to portfolio cost with an equal reduction in portfolio value.

As a result of the early adoption of IFRS 10, and the exemption from consolidation, the proportion of the investment portfolio held by the Group's unconsolidated subsidiaries is now presented as part of the fair value of investment entity subsidiaries, along with the fair value of their other assets and liabilities. A reconciliation of the fair value of Investments in investment entities is included in Note 14.

	Group 2014 Total £m	Group 2013 (restated) Total £m
Non-current		
Opening book value	1 680	868
Additions	212	960
– of which loan notes with nil value	(60)	(33)
Disposals, repayments and write-offs	(306)	(298)
Fair value movement	77	156
Other movements	(66)	27
Closing book value	1 537	1 680
Quoted investments	258	243
Unquoted investments	1 279	1 437
Closing book value	1 537	1 680

The holding period of 3i's investment portfolio is on average greater than one year. For this reason, the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Additions include £98 million (2013: £47 million) in interest received by way of loan notes, of which £60 million (2013: £33 million) has been written down in the year to nil. Included within the Statement of comprehensive income is £29 million (2013: £19 million) of interest income, which reflects the net additions after write-downs noted above, £6 million (2013: £5 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income £(15) million (2013: £nil).

Other movements include foreign exchange and conversions from one instrument into another.

Fair value hierarchy

The Group classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted) from active markets	Quoted equity instruments
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)	
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments and loan instruments

Unquoted equity instruments and debt instruments are measured in accordance with the International Private Equity and Venture Capital valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments and debt instruments can be found in the section Portfolio valuation – an explanation.

The Group's investment portfolio for equity instruments and debt instruments are classified by the fair value hierarchy as follows

	Group 2014 Level 1 £m	Group 2014 Level 2 £m	Group 2014 Level 3 £m	Group 2014 Total £m	Group 2013 Level 1 (restated) £m	Group 2013 Level 2 (restated) £m	Group 2013 Level 3 (restated) £m	Group 2013 Total (restated) £m
Quoted investments	258	–	–	258	243	–	–	243
Unquoted investments	–	–	1 279	1 279	–	–	1 437	1 437
Total	258	–	1 279	1 537	243	–	1 437	1 680

	Company 2014 Level 1 £m	Company 2014 Level 2 £m	Company 2014 Level 3 £m	Company 2014 Total £m	Company 2013 Level 1 £m	Company 2013 Level 2 £m	Company 2013 Level 3 £m	Company 2013 Total £m
Quoted investments	258	–	–	258	243	–	–	243
Unquoted investments	–	–	1 283	1 283	–	–	1 443	1 443
Total	258	–	1 283	1 541	243	–	1 443	1 686

This disclosure only relates to the directly held investment portfolio. The fair value hierarchy also applies to derivative financial instruments see Note 20 for further details, and to Investments in investment entities see Note 14 for details.

Investments in investment entities are fair valued at the entity's net asset value with the significant part being attributable to the underlying portfolio. The underlying portfolio is valued under the same methodology as directly held investments with any other assets or liabilities within investment entities fair valued in accordance with the Group's accounting policies.

Notes to the financial statements

13 Investment portfolio (continued)

Level 3 fair value reconciliation

	Group Total 2014 £m	Group Total 2013 (restated) £m
Opening book value	1 437	475
Additions	212	960
– of which loan notes with nil value	(60)	(33)
Disposals repayments and write-offs	(297)	(147)
Fair value movement	63	140
Transfer of equity Level 3 to Level 1	(12)	–
Other movements	(64)	42
Closing book value	1 279	1 437

	Company Total 2014 £m	Company Total 2013 £m
Opening book value	1 443	478
Additions	206	969
– of which loan notes with nil value	(60)	(33)
Disposals repayments and write-offs	(297)	(135)
Fair value movement	69	140
Transfer of equity Level 3 to Level 1	(12)	–
Other movements	(66)	24
Closing book value	1 283	1 443

Unquoted investments valued using Level 3 inputs also had the following impact on the Statement of comprehensive income: realised profits over value on disposal of investment of £144 million (2013: £55 million), dividend income of £12 million (2013: £12 million) and foreign exchange losses of £46 million (2013: £17 million gain). The transfer of equity from Level 3 to Level 1 reflects the IPO of Quintiles on 14 May 2013.

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. A reasonable alternative assumption would be to apply a standard marketability discount of 5% for all assets rather than the specific approach adopted. This would have a positive impact on the directly held unquoted investment portfolio of £111 million (2013: £84 million) or 9% (2013: 6%).

If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a positive impact of £19 million (2013: £43 million) or 1% (2013: 3%).

14 Investments in investment entities

Accounting policy:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit or loss

These entities are typically Limited Partnerships and other intermediate investment holding structures which hold the Group's interests in investments in portfolio companies (Investment Entity Holding Companies) and were consolidated prior to the adoption of IFRS 10. All cash flows to/from investment entities are treated as a reduction/increase in the fair value of the investment entity

	Group 2014 Total £m	Group 2013 Total (restated) £m
Non-current		
Opening book value	1 630	2 360
Net cash flow to/(from) investment entity	(46)	(197)
Fair value movement on investment entity subsidiary	454	491
Transfer of (assets)/liabilities from investment entity subsidiaries to the Company	(65)	(1 022)
Closing book value	1 973	1 630

All investment entities are classified as Level 3 in the fair value hierarchy, see Note 13 for details

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no significant restrictions on the ability to transfer funds from these subsidiaries.

The Group receives income in the form of dividends and interest from its investments in unconsolidated subsidiaries, and there are no significant restrictions on the transfer of funds from these entities to the Group.

Support

3i Group plc provides ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the year, the Group provided support to its unconsolidated subsidiaries, with a net cash flow as noted in the table above. The Group has no contractual commitments or current intentions to provide any other financial or other support to its unconsolidated subsidiaries.

15 Interests in Group and fair value entities

Accounting policy:

The Company has controlling equity interests in, and makes loans to, both consolidated and fair valued Group entities. In the Company's books, these subsidiaries are all held at amortised cost less impairment.

	Company 2014 Equity investments £m	Company 2014 Loans and receivables £m	Company 2014 Total £m
Opening book value	278	1 403	1 681
Additions	60	285	345
Share of profits	–	55	55
Disposals and repayments	(25)	(253)	(278)
Impairment	21	2	23
Exchange movements	–	(91)	(91)
Closing book value	334	1 401	1 735

Notes to the financial statements

15 Interests in Group and fair value entities (continued)

Details of significant Group entities are given in Note 34

	Company 2013 Equity investments £m	Company 2013 Loans and receivables £m	Company 2013 Total £m
Opening book value	51	2 273	2 324
Additions	285	272	557
Share of profits	–	374	374
Disposals and repayments	(49)	(2 165)	(2 214)
Impairment	(9)	771	762
Exchange movements	–	(122)	(122)
Closing book value	278	1 403	1 681

16 Intangible assets

Accounting policy:

Fund management contracts, such as those acquired by the Group in connection with the acquisition of a subsidiary, are stated at their fair value at the date of acquisition less accumulated amortisation and any impairment losses. Amortisation is charged to the Statement of comprehensive income included in operating expenses on a straight-line basis over the estimated useful life of the fund management contract, typically five to 10 years.

	Group 2014 £m	Group 2013 (restated) £m
Fund management contracts		
Opening cost	1	–
Acquisitions	–	1
Closing cost	1	1
Opening accumulated amortisation	–	–
Charge for the year	–	–
Closing accumulated amortisation	–	–
Net book amount	1	1

	Group 2014 £m	Group 2013 (restated) £m
Goodwill		
Opening value	9	–
Acquisitions	–	9
Closing value	9	9

17 Property, plant and equipment

Accounting policy:

Vehicles and office equipment

Vehicles and office equipment are depreciated by equal annual instalments over their estimated useful lives as follows: office equipment five years, computer equipment three years, computer software three years, motor vehicles four years.

Assets held under finance leases

Assets held under finance leases are depreciated over their expected useful life on the same basis as owned assets or, where shorter, the lease term. Assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The interest element of the rental obligations is charged in the Statement of comprehensive income over the period of the agreement and represents a constant proportion of the balance of capital repayments outstanding.

Leasehold improvements

Leasehold improvements are depreciated by equal annual instalments over the shorter of their estimated useful lives and the lease term. Assets are reviewed for impairment where events or changes in circumstances indicate that the carrying value may not be recoverable.

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Plant and equipment				
Opening cost or valuation	27	33	–	–
Additions at cost	1	1	–	–
Disposals	(1)	(7)	–	–
Closing cost or valuation	27	27	–	–
Opening accumulated depreciation	20	24	–	–
Charge for the year	2	1	–	–
Disposals	–	(5)	–	–
Closing accumulated depreciation	22	20	–	–
Net book amount	5	7	–	–

18 Other current assets

Accounting policy:

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the Statement of comprehensive income.

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Prepayments	4	3	–	–
Other debtors	68	62	11	15
Amounts due from subsidiaries	–	–	292	103
	72	65	303	118

Notes to the financial statements

19 Financial risk management

Introduction

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Risk section. This Note provides further detail on financial risk management cross-referring to the Risk section where applicable, and includes quantitative data on specific financial risks.

The Group is a highly selective investor and each investment is subject to an individual risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section.

For the Group, this Note has been prepared using figures from the investment basis financial statements as this provides the user with a more comprehensive reflection of the financial risks of the Group and is consistent with how Management assess and manage risk. An explanation and reconciliation of the investment basis to IFRS is shown in the Strategic report on pages 53 to 57.

For the Company, this Note has been prepared on an IFRS basis.

Capital structure

The capital structure of the Group consists of net debt, including cash held on deposit, long-term borrowings and shareholders' equity. The type and maturity of the Group's borrowings are analysed further in Note 21. Capital is managed with the objective of maximising long-term return to shareholders, whilst maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain future development of the business.

	Group 2014 £m	Group 2013 (restated) £m
Cash, deposits and derivative financial assets ¹	699	750
Borrowings and derivative financial liabilities ²	(859)	(1,085)
Net debt	(160)	(335)
Total equity	3,308	2,934
Gearing (net debt/total equity)	5%	11%

¹ Includes derivative financial assets of £2 million (2013: £4 million) which net off borrowings in order to calculate gross debt.

² Includes derivative financial liabilities of £4 million for 2014 and £60 million in 2013. B shares of £6 million in 2014 and 2013 are also included in this figure.

Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints have been identified in the past and the Group has been able to distribute profits in a tax-efficient manner.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm that is regulated by the FCA. The last submission to the FCA demonstrated a significant consolidated capital surplus in excess of the FCA's prudential rules. The Group's capital requirement is updated regularly following approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of 3i Investments plc. The Group complies with the Individual Capital Guidance as agreed with the FCA and remains at a significant regulatory capital surplus. The Group's Pillar 3 disclosure document can be found on www.3i.com.

Financial risks

Concentration risk

The Group's exposure to and mitigation of concentration risk is explained within the "investment" and "treasury and funding" sections in the Risk section. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in Note 1. Segmental analysis and in the 25 large investments table on pages 154 and 155.

Credit risk

The Group is subject to credit risk on its loans, receivables, derivatives, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with circa 87% of the Group's surplus cash held on demand in AAA Liquidity funds. The balance is held on short-term deposit with 3i's relationship banks. The credit quality of loans and receivables within the investment portfolio is based on the financial performance of the individual portfolio companies. For those assets that are not past due it is believed that the risk of default is small and that capital repayments and interest payments will be made in accordance with the agreed terms and conditions of the Group's investment. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Loan impairments are made when the valuation of the portfolio company implies non-recovery of all or part of the Group's loan investment. In these cases an appropriate loan impairment is recorded to reflect the valuation shortfall. In accordance with IFRS 7, the amounts shown as past due represent the total credit exposure, not the amount actually past due.

Credit risk

	Group not past due £m	Group up to 12 months past due £m	Group more than 12 months past due £m	Group Total £m	Company not past due £m	Company up to 12 months past due £m	Company more than 12 months past due £m	Company Total £m
As at 31 March 2014								
Loans and receivables before provisions and impairments	1 922	3	–	1 925	812	–	–	812
Provisions on investments that have failed or are expected to fail in the next 12 months	(67)	–	–	(67)	(1)	–	–	(1)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Groups loan investment	(462)	–	–	(462)	(119)	–	–	(119)
Total	1 393	3	–	1 396	692	–	–	692

	Group not past due £m	Group up to 12 months past due £m	Group more than 12 months past due £m	Group Total £m	Company not past due £m	Company up to 12 months past due £m	Company more than 12 months past due £m	Company Total £m
As at 31 March 2013 (restated)								
Loans and receivables before provisions and impairments	1 799	90	85	1 974	981	90	84	1 155
Provisions on investments that have failed or are expected to fail in the next 12 months	(99)	–	(22)	(121)	(44)	–	(22)	(66)
Impairments where the valuation of the portfolio company implies non-recovery of all or part of the Groups loan investment	(537)	(7)	(59)	(603)	(379)	(7)	(58)	(444)
Total	1 163	83	4	1 250	558	83	4	645

Movements on loan impairment and provisions are shown below

	Group provisions £m	Group impairments £m	Group Total £m	Company provisions £m	Company impairments £m	Company Total £m
Balance as at 31 March 2012 (restated)	(142)	(553)	(695)	(34)	(8)	(42)
Other movements	17	(70)	(53)	(38)	(493)	(531)
(Charged)/credited to income statement in the year	4	20	24	6	57	63
Balance as at 31 March 2013 (restated)	(121)	(603)	(724)	(66)	(444)	(510)
Other movements	54	47	101	65	225	290
(Charged)/credited to income statement in the year	–	94	94	–	100	100
Balance as at 31 March 2014	(67)	(462)	(529)	(1)	(119)	(120)

Notes to the financial statements

19 Financial risk management (continued)

Liquidity risk

Liquidity outlook is monitored weekly in the context of regular strategic reviews of the balance sheet. The new investment pipeline and forecast realisations are closely monitored and assessed against our vintage control policy. These are noted in the risk mitigation section on page 63 of the Risk section. The table below analyses the maturity of the Group's gross contractual liabilities.

Financial liabilities (excluding forward foreign exchange contracts)

As at 31 March 2014	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross commitments										
Fixed loan notes	51	51	396	931	1 429	51	51	396	931	1 429
Committed multi-currency facility	2	2	–	–	4	2	2	–	–	4
Interest rate swaps	–	–	–	–	–	–	–	–	–	–
Carried interest payable within one year	11	–	–	–	11	–	–	–	–	–
Acquisition related earn-out charges payable	10	10	8	–	28	10	8	8	–	26
Trade and other payables	198	–	–	–	198	292	–	–	–	292
Total	272	63	404	931	1 670	355	61	404	931	1 751

Forward foreign exchange contracts

As at 31 March 2014	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross amount receivable from forward foreign exchange contracts	108	–	–	–	108	109	–	–	–	109
Gross amount payable for forward foreign exchange contracts	(112)	–	–	–	(112)	(113)	–	–	–	(113)
Total amount payable	(4)	–	–	–	(4)	(4)	–	–	–	(4)

Financial liabilities (excluding forward foreign exchange contracts)

As at 31 March 2013 (restated)	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross commitments										
Fixed loan notes	51	51	417	967	1 486	51	51	417	967	1 486
Committed multi-currency facility	167	2	2	–	171	2	2	2	–	6
Interest rate swaps	5	5	40	–	50	5	5	40	–	50
Carried interest payable within one year	29	–	–	–	29	–	–	–	–	–
Acquisition related earn-out charges payable	–	7	15	–	22	–	7	13	–	20
Trade and other payables	178	–	–	–	178	181	–	–	–	181
Total	430	65	474	967	1 936	239	65	472	967	1 743

Forward foreign exchange contracts

As at 31 March 2013 (restated)	Group due within 1 year £m	Group due between 1 and 2 years £m	Group due between 2 and 5 years £m	Group due more than 5 years £m	Group Total £m	Company due within 1 year £m	Company due between 1 and 2 years £m	Company due between 2 and 5 years £m	Company due more than 5 years £m	Company Total £m
Gross amount receivable from forward foreign exchange contracts	319	152	–	–	471	325	153	–	–	478
Gross amount payable for forward foreign exchange contracts	(321)	(160)	–	–	(481)	(327)	(161)	–	–	(488)
Total amount payable	(2)	(8)	–	–	(10)	(2)	(8)	–	–	(10)

Market risk

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio but the valuation and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

(i) Interest rate risk

Interest rate risk is primarily being managed through a reduction in gross debt as noted in the Risk section. The direct impact of a movement in interest rates is relatively small as the Group's outstanding debt is fixed rate. An increase of 100 basis points, based on the closing balance sheet position over a 12 month period, would lead to an approximate increase in total comprehensive income of £8 million (2013: £21 million increase) for the Group and £6 million (2013: £22 million increase) for the Company. This increase arises principally from changes in interest receivable on cash and deposits.

In addition, the Group and Company have indirect exposure to interest rates through changes to the financial performance and valuation of portfolio companies caused by interest rate fluctuations.

(ii) Currency risk

The Group's net assets in euro, US dollar, Swedish krona, Indian rupee, Chinese renminbi, Brazilian real and all other currencies combined is shown in the table below. This sensitivity analysis is performed based on the sensitivity of the Group and Company's net assets to movements in foreign currency exchange rates assuming a 10% movement in exchange rates against sterling.

The Group considers currency risk on specific investment and realisation transactions and has reduced hedging on a consolidated basis over time. Further information on how currency risk is managed is provided on page 49 in the Financial review section.

As at 31 March 2014	Group sterling £m	Group euro £m	Group US dollar £m	Group Swedish krona £m	Group Indian rupee £m	Group Chinese renminbi £m	Group Brazilian real £m	Group other £m	Group Total £m
Net assets	948	1,317	898	(6)	62	26	33	30	3,308
Sensitivity analysis									
Assuming a 10% movement in exchange rates against sterling									
Impact on exchange movements in the Statement of comprehensive income	n/a	54	69	30	–	–	3	3	159
Impact on the translation of foreign operations in other comprehensive income	n/a	69	(10)	(22)	6	2	–	(1)	44
Total	n/a	123	59	8	6	2	3	2	203

Notes to the financial statements

19 Financial risk management (continued)

As at 31 March 2014	Company sterling £m	Company euro £m	Company US dollar £m	Company Swedish krona £m	Company Indian rupee £m	Company Chinese renminbi £m	Company Brazilian real £m	Company other £m	Company Total £m
Net assets	1 253	979	537	157	25	–	35	29	3 015
Sensitivity analysis									
Impact on exchange movements in the Statement of comprehensive income assuming a 10% movement in exchange rates against sterling	–	47	33	21	2	–	3	5	111
Total	–	47	33	21	2	–	3	5	111

As at 31 March 2013 (restated)	Group sterling £m	Group euro £m	Group US dollar £m	Group Swedish krona £m	Group Indian rupee £m	Group Chinese renminbi £m	Group Brazilian real £m	Group other £m	Group Total £m
Net assets	870	871	863	14	78	62	45	131	2 934
Sensitivity analysis									
Assuming a 10% movement in exchange rates against sterling									
Impact on exchange movements in the Statement of comprehensive income	n/a	19	69	35	–	–	4	11	138
Impact on the translation of foreign operations in other comprehensive income	n/a	43	(25)	(25)	7	5	–	–	5
Total	n/a	62	44	10	7	5	4	11	143

As at 31 March 2013	Company sterling £m	Company euro £m	Company US dollar £m	Company Swedish krona £m	Company Indian rupee £m	Company Chinese renminbi £m	Company Brazilian real £m	Company other £m	Company Total £m
Net assets	1 642	445	541	206	27	–	43	134	3 038
Sensitivity analysis									
Impact on exchange movements in the Statement of comprehensive income assuming a 10% movement in exchange rates against sterling	n/a	10	34	25	2	–	4	14	89
Total	n/a	10	34	25	2	–	4	14	89

(iii) Price risk – market fluctuations

The Group's management of price risk, which arises primarily from quoted and unquoted equity instruments, is through the careful consideration of the investment asset management and realisation decisions at the Investment Committee. The Investment Committee's role in risk management is discussed further in the Risk section. A 15% change in the fair value of those investments would have the following direct impact on the Statement of comprehensive income:

	2014 Quoted investment £m	2014 Unquoted investment £m	2014 Total £m	2013 Quoted investment (restated) £m	2013 Unquoted investment (restated) £m	2013 Total (restated) £m
Group	83	242	325	65	242	307
Company	39	89	128	36	120	156

20 Derivative financial instruments

Accounting policy.

See Note 10 for accounting policy on Derivative financial instruments

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Current assets				
Forward foreign exchange contracts	2	4	2	4
	2	4	2	4
Non-current liabilities				
Forward foreign exchange contracts	–	(7)	–	(7)
Interest rate swaps	–	(48)	–	(48)
	–	(55)	–	(55)
Current liabilities				
Forward foreign exchange contracts	(4)	(5)	(4)	(5)
	(4)	(5)	(4)	(5)

Forward foreign exchange contracts

The contracts entered into by the Group are principally denominated in the currencies of the geographic areas in which the Group operates

In the prior year the Group announced a change to its hedging strategy and continued to reduce its use of derivatives to hedge exchange movements on its US dollar and euro portfolio. At the balance sheet date, the notional amount of outstanding forward foreign exchange contracts was £112 million (2013: £481 million)

Interest rate swaps

The Group closed out its remaining interest rate derivative during the year

The Group does not trade in derivatives. In general, derivatives held hedge specific exposures and have maturities designed to match the exposures they are hedging. It is the intention to hold both the financial instruments giving rise to the exposure and the derivative hedging them until maturity.

In accordance with the fair value hierarchy described in Note 13, derivative financial instruments are measured using Level 2 inputs, as described in Note 10.

21 Loans and borrowings

Accounting policy

All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities.

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Loans and borrowings are repayable as follows				
Within one year	–	164	–	–
In the second year	–	–	–	–
In the third year	274	–	274	–
In the fourth year	–	280	–	280
In the fifth year	–	–	–	–
After five years	575	575	575	575
	849	1 019	849	855

Notes to the financial statements

21 Loans and borrowings (continued)

Principal borrowings include

	Rate	Maturity	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Issued under the £2,000m note issuance programme						
Fixed rate						
£200m notes (public issue)	6.875%	2023	200	200	200	200
£400m notes (public issue)	5.750%	2032	375	375	375	375
€350m notes (public issue)	5.625%	2017	274	280	274	280
			849	855	849	855
Committed multi-currency facilities						
£50m	LIBOR+1.50%	2016	-	-	-	-
£450m	LIBOR+1.00%	2016	-	164	-	-
			-	164	-	-
Total loans and borrowings			849	1,019	849	855

The Group is subject to a financial covenant on its committed multi-currency facilities: the Asset Cover Ratio, defined as total assets (including cash) divided by loans and borrowings plus derivative financial liabilities. The Asset Cover Ratio limit is 1.45 at 31 March 2014 (2013: 1.45), the Asset Cover Ratio at 31 March 2014 is 5.33 (2013: 4.00).

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group. The fair value of the loans and borrowings is £942 million (2013: £1,087 million), determined with reference to their published market prices which are included within Level 1 of the fair value hierarchy.

Gross debt also includes the liabilities relating to the Group's B shares and net liabilities relating to derivative financial instruments.

22 Provisions

Accounting policy

Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the Statement of comprehensive income for the period.

	Group 2014 Property £m	Group 2014 Redundancy £m	Group 2014 Restructuring £m	Group 2014 Total £m
Opening balance	7	3	2	12
Charge for the year	1	7	1	9
Utilised in the year	(2)	(7)	-	(9)
Closing balance	6	3	3	12

	Group 2013 Property (restated) £m	Group 2013 Redundancy (restated) £m	Group 2013 Restructuring (restated) £m	Group 2013 Total (restated) £m
Opening balance	4	3	–	7
Charge for the year	3	21	5	29
Utilised in the year	–	(21)	(3)	(24)
Closing balance	7	3	2	12

The provision for redundancy relates to staff reductions announced prior to 31 March. More detail on the Group restructuring is discussed in the Chief Executive's review on page 9. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease and have been provided for to the extent they are not covered by income from subleases. The leases covered by the provision have a remaining term of up to 13 years.

23 Trade and other payables

Accounting policy:

Liabilities other than those specifically accounted for under a separate policy are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 (restated) £m
Other accruals	158	142	16	18
Amounts due to subsidiaries	–	–	276	163
	158	142	292	181

24 Issued capital

Accounting policy:

Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

	2014 Number	2014 £m	2013 Number	2013 £m
Issued and fully paid				
Ordinary shares of 73 1/2p				
Opening balance	971 405 127	718	971 069 281	717
Issued on exercise of share options and under employee share plans	397 995	–	335 846	1
Closing balance	971 803 122	718	971 405 127	718

During the year to 31 March 2014 the Company issued shares for cash on the exercise of share options at various prices from 353p to 396p per share.

Notes to the financial statements

25 Equity

Capital redemption reserve

The capital redemption reserve is established in respect of the redemption of the Company's ordinary shares

Share-based payment reserve

The share-based payment reserve is a reserve to recognise those amounts in retained earnings in respect of share-based payments

Translation reserve

The translation reserve comprises all exchange differences arising from the translation of the financial statements of international operations

Capital reserve

The capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act the Company amended its Articles of Association at the 2012 Annual General Meeting to allow these profits to be distributable by way of a dividend

Revenue reserve

The revenue reserve recognises all profits that are revenue in nature or have been allocated to revenue

26 Own shares

	2014 £m	2013 £m
Opening cost	104	105
Additions	–	–
Disposals	(15)	(1)
Closing cost	89	104

27 Per share information

The earnings and net assets per share attributable to the equity shareholders of the Company are based on the following data

As at 31 March	2014	2013
Earnings per share (pence)		
Basic	54.8	38.3
Diluted	54.5	38.2
Earnings (£m)		
Profit/(loss) for the year attributable to equity holders of the Company	517	360
As at 31 March	2014	2013
Weighted average number of shares in issue		
Ordinary shares	971 574 471	971 257 376
Own shares	(28 285 335)	(31 582 481)
	943 289 136	939 674 895
Effect of dilutive potential ordinary shares		
Share options and awards	5 627 447	3 253 409
Diluted shares	948 916 583	942 928 304

As at 31 March	2014	2013
Net assets per share (£)		
Basic	3 50	3 12
Diluted	3 48	3 11
Net assets (£m)		
Net assets attributable to equity holders of the Company	3 308	2 934
As at 31 March	2014	2013
Number of shares in issue		
Ordinary shares	971 803 122	971 405 127
Own shares	(26 774 318)	(31 395 645)
	945 028 804	940 009 482
Effect of dilutive potential ordinary shares		
Share options and awards	6 502 546	3 613 318
Diluted shares	951 531 350	943 622 800

28 Dividends

	2014 pence per share	2014 £m	2013 pence per share	2013 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	5 4	51	5 4	51
Interim dividend	6 7	63	2 7	25
	12 1	114	8 1	76
Proposed final dividend	13 3	126	5 4	51

29 Operating leases

Leases as lessee

Future minimum payments due under non-cancellable operating lease rentals are as follows

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Less than one year	7	7	–	–
Between one and five years	22	24	–	–
More than five years	21	21	–	–
	50	52	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2014 £5 million (2013: £11 million) was recognised as an expense in the Statement of comprehensive income in respect of operating leases. Income recognised in the Statement of comprehensive income in respect of subleases was £nil (2013: £nil). The total future sublease payments expected to be received under non-cancellable subleases is £5 million (2013: £7 million).

Notes to the financial statements

30 Commitments

	Group 2014 due within 1 year £m	Group 2014 due between 2 and 5 years £m	Group 2014 due over 5 years £m	Group 2014 Total £m	Group 2013 due within 1 year (restated) £m	Group 2013 due between 2 and 5 years (restated) £m	Group 2013 due over 5 years (restated) £m	Group 2013 Total (restated) £m
Equity and loan investments	66	5	–	71	6	12	–	18

	Company 2014 due within 1 year £m	Company 2014 due between 2 and 5 years £m	Company 2014 due over 5 years £m	Company 2014 Total £m	Company 2013 due within 1 year £m	Company 2013 due between 2 and 5 years £m	Company 2013 due over 5 years £m	Company 2013 Total £m
Equity and loan investments	42	5	–	47	5	8	–	13

The amounts shown above include commitments made by the Group and Company of £63 million (2013: £nil) and £39 million (2013: £nil) respectively, to create warehouse facilities in the US and Europe to support the creation of senior secured debt portfolios ahead of future CLO fund launches. These commitments are due within one year. Further contingent commitments to the warehouses are detailed in Note 31.

For commitments to funds managed and advised by the Group refer to pages 28, 33 and 38.

31 Contingent liabilities

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	5	4	5	4

Other contingent liabilities

The Company has guaranteed the payment of principal and interest on amounts drawn down by 3i Holdings plc under the committed multi-currency facilities. At 31 March 2014, 3i Holdings plc had no drawings (2013: £164 million) under these facilities.

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012 the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc as defined by the agreement) to a wholly-owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets at 31 March 2014 was £162 million (2013: £160 million).

3i has entered into warehouse arrangements in the US and Europe to support the creation of senior secured debt portfolios ahead of future CLO fund launches. Whilst in the warehouse phase, 3i is subject to optional margin calls in the event of market falls. The current capital at risk is restricted to the £17 million invested at 31 March 2014.

3i Group plc has provided an indemnification against an existing personal guarantee by the management of Fraser Sullivan Investment Management on the lease of a New York office taken over by 3i DM US LLC, a subsidiary of 3i Corporation. The guarantee covers lost rental income the landlord would suffer if 3i DM US LLC reneged on its lease obligations.

The current lease runs to October 2014 and the maximum exposure that 3i Corporation could be exposed to is US\$350,000.

At 31 March 2014, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

32 Related parties and interests in other entities

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio (including unconsolidated subsidiaries), its advisory arrangements and its key management personnel. In addition the Company has related parties in respect of its subsidiaries. Some of these subsidiaries are held at fair value (unconsolidated subsidiaries) due to the treatment prescribed in IFRS 10 and disclosure relating to these subsidiaries is shown in Note 14.

Related parties

Limited partnerships

The Group manages a number of external funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Statement of comprehensive income				
Carried interest receivable	(1)	6	(1)	4
Fees receivable from external funds	33	25	–	–

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Statement of financial position				
Carried interest receivable	8	10	8	9

Investments

The Group makes minority investments in the equity of unquoted and quoted investments. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IAS 28) but are related parties. The total amounts included for these investments are as follows:

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Statement of comprehensive income				
Realised profit/(loss) over value on the disposal of investments	12	87	12	(2)
Unrealised profits on the revaluation of investments	62	22	59	21
Portfolio income	12	9	11	8

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Statement of financial position				
Unquoted investments	572	588	542	567

From time to time transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. These transactions are made on an arms length basis.

Notes to the financial statements

32 Related parties and interests in other entities (continued)

Advisory arrangements

The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange. The following amounts have been included in respect of this advisory relationship:

	Group 2014 £m	Group 2013 (restated) £m	Company 2014 £m	Company 2013 £m
Statement of comprehensive income				
Unrealised profits on the revaluation of investments	3	15	3	14
Fees receivable from external funds	10	10	–	–
Dividends	12	18	12	18
Statement of financial position				
Quoted equity investments	242	239	242	239

Subsidiaries

Transactions between the Company and its fully consolidated subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below and in Notes 14, 15 and 23.

Management, administrative and secretarial arrangements

The Company has appointed 3i Investments plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £23 million (2013: £23 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £98 million (2013: £105 million) for this service.

Other subsidiaries

The Company borrows funds from and lends funds to certain subsidiaries and pays and receives interest on the outstanding balances. The interest income that is included in the Company's Statement of comprehensive income is £2 million (2013: £1 million) and the interest expense included is £1 million (2013: nil).

Key management personnel

The Group's key management personnel comprise the members of the Executive Committee and the Board's non-executive Directors. The following amounts have been included in respect of these individuals

	Group 2014 £m	Group 2013 (restated) £m
Statement of comprehensive income		
Salaries, fees, supplements and benefits in kind	5	6
Bonuses and deferred share bonuses ¹	8	4
Increase in accrued pension	–	–
Carried interest and performance fees payable	10	–
Share-based payments	3	2
Termination benefits ²	–	1

¹ For further detail, see Directors' remuneration report

² No termination benefits were paid to executive Directors during the year or the prior year

	Group 2014 £m	Group 2013 (restated) £m
Statement of financial position		
Bonuses and deferred share bonuses	7	7
Carried interest and performance fees payable within one year	1	2
Carried interest and performance fees payable after one year	6	5

Carried interest paid in the year to key management personnel was £nil (2013: £6 million). Deferred consideration in relation to the acquisition of Mizuho Investment Management Limited is no longer included in the Statement of financial position as a result of the adoption of IFRS 10.

Unconsolidated structured entities

The application of IFRS 12 in the period required additional disclosure on the Group's exposure to unconsolidated structured entities.

The Group has exposure to a number of unconsolidated structured entities as a result of its investment activities across its Private Equity, Infrastructure and Debt Management business lines. These structured entities fall into four categories: namely CLOs, debt management warehouses, closed end limited partnerships (Private Equity and Infrastructure funds) and investments in certain portfolio investments.

The nature, purpose and activities of these entities are detailed below along with the nature of risks associated with these entities and the maximum exposure to loss.

CLO structured entities

The Group manages CLO vehicles as part of its Debt Management business. These funds predominantly invest in senior secured loans and are financed by investors seeking credit rated structured investment returns.

The Group manages these funds in return for a management fee. The Group also typically invests into the equity tranche of these funds. The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and performance fees are accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below.

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	34	–	34	34
Fee income receivable	1	–	1	1
Total	35	–	35	35

The Group earned dividend income of £8 million and fee income of £7 million during the year from CLO structured entities.

Notes to the financial statements

32 Related parties and interests in other entities (continued)

Warehouse structured entities

Ahead of future CLO fund launches, warehouse facilities are usually established to support the creation of senior secured debt portfolios. These entities are financed by the Group along with the bank appointed to operate the warehouse facility. The Group makes a commitment to the warehouse, typically taking the first loss position and is at risk for margin calls if the portfolio underperforms. The Group's attributable stakes in these warehouses are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	17	–	17	17
Total	17	–	17	17

The Group earned income of £2 million during the year from warehouse structured entities.

Closed end limited partnerships

The Group manages a number of closed end limited partnerships, which are primarily Private Equity or Infrastructure focused, in return for a management fee. The purpose of these partnerships is to invest in Private Equity or Infrastructure investments for capital appreciation. Limited Partners, which in some cases may include the Group, finance these entities by committing capital to them and cash is drawn down or distributed for financing investment activity.

The Group's attributable stakes in these entities are held at fair value. Fees receivable are recognised on an accruals basis and carried interest is accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Carried interest receivable	8	–	8	8
Total	8	–	8	8

The Group earned fee income of £33 million and carried interest of £(1) million in the year.

Investments that are structured entities

The Group makes investments on behalf of itself and third party funds that it manages, for capital appreciation purposes. In a small number of cases, these investments fall under the classification of a structured entity as they are funds managed by the General Partner under a limited partnership agreement.

The Group's attributable stakes in these entities are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	4	–	4	4
Total	4	–	4	4

The Group recognised a realised profit of £1 million from investments that are structured entities in the year.

33 Business combination

On 8 November 2013 3i Holdings Plc, a wholly owned Group subsidiary acquired 100% of the share capital of Barclays Infrastructure Funds Management Limited ("BIFML"). The acquisition formed part of the Group's strategy to build its Infrastructure business and to grow external AUM. At the time of the transaction, BIFML was managing c. £780 million of AUM comprising two active funds. Both of the funds mainly invest in Private Public Partnerships, Private Finance Initiative projects and other infrastructure related projects with similar characteristics in the UK and Europe ("PPP"). BIFML has four fully owned subsidiaries that serve as General Partners for these and other funds within the structure. As a result of the acquisition, 22 employees joined the Group.

The fair value of the identifiable assets and liabilities of BIFML have been further reviewed since the date of completion and the consideration paid was

	Fair value recognised £m
Fair value of assets received	97
Fair value of liabilities assumed	(3.8)
Total identifiable net assets at fair value	5.9
Consideration	
Cash	5.5
Total consideration	5.5
Gain on bargain purchase	0.4
Net cash outflow arising on acquisition	
Cash consideration paid	(5.5)
Cash and cash equivalents acquired	7.9
Net cash flow on acquisition	2.4

The measurement of fair value of the net assets resulted in a gain on bargain purchase on acquisition. This is included as other income on the Group income statement.

At completion the new Group entities were renamed as follows

Barclays Infrastructure Funds Management Limited	3i BIFM Investments Limited
Barclays European Infrastructure II Limited	BEIF II Limited
Barclays Alma Mater General Partner Limited	BAM General Partner Limited
BEIF Management Limited	BEIF Management Limited
BIIF GP Limited	BIIF GP Limited

Notes to the financial statements

34 Group entities

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office	Consolidation treatment
3i Holdings plc	England and Wales	1 000 000 ordinary shares of £1	Holding company	16 Palace Street London SW1E 5JD	Consolidated
3i International Holdings	England and Wales	2 715 973 ordinary shares of £10	Holding company		Consolidated
3i plc	England and Wales	110 000 000 ordinary shares of £1	Services		Consolidated
3i Debt Management Limited	England and Wales	1 000 000 ordinary shares of £1	Holding company		Fair valued
3i Debt Management Investments Limited	England and Wales	12 000 000 ordinary shares of £1	Investment manager		Fair valued
3i Investments plc	England and Wales	10 000 000 ordinary shares of £1	Investment manager		Consolidated
3i BIFM Investments Limited	England and Wales	2 570 000 ordinary shares of £1	Investment manager		Consolidated
3i Europe plc	England and Wales	500 000 ordinary shares of £1	Investment adviser		Consolidated
3i Nordic plc	England and Wales	500 000 ordinary shares of £1	Investment adviser		Consolidated
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee		Consolidated
3i Corporation	USA	15 000 shares of common stock (no par value)	Investment manager	Suite 9C 401 Madison Avenue New York NY 10017 USA	Consolidated
3i Debt Management US LLC	USA	100 shares of common stock (no par value)	Investment manager		Consolidated
3i Deutschland Gesellschaft für Industriebeteiligungen GmbH	Germany	€25 564 594	Investment manager	Bockenheimer Landstrasse 2-4 60306 Frankfurt am Main Germany	Consolidated

The list opposite comprises the principal subsidiary undertakings as at 31 March 2014 all of which were wholly-owned, with the exception of 3i Debt Management Limited which is 63% owned and is in turn the 100% owner of 3i Debt Management Investments Limited and 3i Debt Management US LLC which is 80% owned. The Group has entered into agreements to purchase the remaining 37% of the equity of 3i Debt Management Limited and 20% of 3i Debt Management US LLC currently owned by management, over the next four years. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

The introduction of IFRS 10 has resulted in a reassessment of the accounting subsidiaries of the Group. IFRS 10 has reduced the requirements for an entity to be classified as an accounting subsidiary and deems wider control issues, as opposed to equity ownership, as the key determinant when identifying accounting subsidiaries. Under IFRS 10, if a Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control, and hence the investee is deemed an accounting subsidiary. This is counter to the UK Companies Act where voting rights are the key determinant when identifying accounting subsidiaries, with a larger than 50% holding of voting rights resulting in an entity being classified as a subsidiary.

The accounting treatment of each subsidiary above is noted in the table, with 3i Debt Management Limited and 3i Debt Management Investments Limited being fair valued with movements recognised in the profit and loss as a result of the implementation of IFRS 10.

As at 31 March 2014, the entire issued share capital of 3i Holdings plc and 63% of the issued share capital of 3i Debt Management Limited was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings listed in the table above and 80% of 3i Debt Management US LLC was held by subsidiary undertakings of the Company.

In addition, under the application of IFRS 10, 36 of the portfolio investments are now considered to be accounting subsidiaries. As per the investment entity exception under IFRS 10, these are all held at fair value with movements shown in the profit and loss. The largest 25 portfolio companies by fair value are detailed on page 154 and 155. The combination of the table opposite and that on pages 154 and 155 are deemed by the Directors to fulfil the IFRS 12 disclosure of material subsidiaries.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 4 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is such that compliance would result in information of excessive length being given. Full information will be annexed to the Company's next annual return.

Advantage has been taken of the exemption conferred by Regulation 7 of the Partnerships (Accounts) Regulations 2008 from the requirements to deliver to the Register of Companies and publish the accounts of those limited partnerships included in the consolidated accounts of the Group.

Independent auditor's report

Independent auditor's report to the members of 3i Group plc

1. Our opinions and conclusions arising from our audit

We have audited the Financial statements of 3i Group plc for the year ended 31 March 2014, which comprise the Statement of comprehensive income, the Group and parent Company Statement of financial position, the Group and parent Company Statement of changes in equity, the Group and parent Company Cash flow statement and the related Notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company Financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion

- the Financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2014 and of the Group's profit for the year then ended,
- the Group Financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union
- the parent Company Financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006,
- the Financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

2. Our assessment of risk of material misstatement

We identified the following risks that have had the greatest effect on our overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team

- valuation of the unquoted investment portfolio
- calculation of carried interest, and
- application and interpretation of new accounting standards, specifically IFRS 10

3. Our response to these risks

- With the assistance of our valuation experts, we assessed the appropriateness of the techniques used to value the unquoted investment portfolio. We challenged management's key assumptions used in preparing these valuations, such as earnings multiples and we performed analysis to confirm that these multiples were within an appropriate range with reference to other comparable company multiples and transaction multiples. We obtained corroborative evidence over the significant inputs used in valuation models
- With regard to carried interest, we performed analytical procedures in respect of carry based on our knowledge of investment realisations, and the performance of the portfolio. In addition, on a sample basis, we reperformed management's calculation of carried interest

- Following the adoption of IFRS 10 for the first time, we challenged the judgements and assumptions that management have exercised in determining which group entities are investment entities and those which are consolidated subsidiaries. We carried out analysis on the group structure as well as the activities within the subsidiaries to confirm they have been treated as held at fair value or consolidated appropriately. We have audited the Financial statements to ensure that the standard has been applied correctly

4. Our application of materiality

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the Financial statements. For the purposes of determining whether the Financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the Financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected and undetected misstatements that we judged would be material for the Financial statements as a whole. We determined materiality for the Group to be £33 million (2013: £29 million) which is 1% of net asset value. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment is that overall performance materiality (that is our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £16.6 million. Our objective in adopting this approach is to ensure that total uncorrected and undetected audit differences in the financial statements as a whole do not exceed our materiality of £33 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.6 million, as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

5 An overview of the scope of our audit

We used a risk-based approach for determining our audit strategy ensuring that our audit teams performed consistent procedures and focused on addressing the risks that are relevant to the business. This approach focused our audit effort towards higher risk areas, such as significant management judgements.

The investments balance is the most significant part of the balance sheet. Control over the valuation of these investments is exercised by 3i's management in London and as such is audited wholly by the UK audit team. In all other locations where the Group has operations, we performed other procedures to confirm there were no significant risks of material misstatement in the Group Financial statements.

Our opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 and
- the information given in the Strategic report and the Directors' report for the financial year for which the Financial statements are prepared is consistent with the Financial statements

6 Matters on which we are required to report by exception

We have nothing to report in respect of the following matters

Under the ISAs (UK and Ireland) we are required to report to you if, in our opinion, information in the Annual Report is

- materially inconsistent with the information in the audited Financial statements or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit or
- otherwise misleading

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent Company or returns adequate for our audit have not been received from group entities not visited by us, or
- the parent Company Financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the Directors' statement, set out on page 76, in relation to going concern and
- the part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

The scope of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

The scope of our audit of the Financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial statements sufficient to give reasonable assurance that the Financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Groups and the parent Company's circumstances and have been applied consistently and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the Financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2014 to identify material inconsistencies with the audited Financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 76, the Directors are responsible for the preparation of the Financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Ernst & Young LLP

David Canning-Jones (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
Date: 13 May 2014

Notes

- 1 The maintenance and integrity of the 3i Group plc web site is the responsibility of the Directors. The work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the Financial statements since they were initially presented on the web site.
- 2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Portfolio and other information

Twenty five large investments

The 25 investments listed below account for 75% of the portfolio at 31 March 2014 (2013: 62%)

For each of our top 25 investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

Investment	Description of business	Business line	Geography
Action 	Non-food discount retailer	Private Equity	Benelux
3i Infrastructure plc 	Quoted investment company investing in infrastructure	Infrastructure	UK
Scandlines ¹ 	Ferry operator in the Baltic Sea	Private Equity	Germany
Element Materials Technology 	Testing and inspection	Private Equity	Benelux
Quintiles	Clinical research outsourcing solutions	Private Equity	US
Mayborn 	Manufacturer and distributor of baby products	Private Equity	UK
Foster + Partners ²	Architectural services	Private Equity	UK
ACR	Pan-Asian non life reinsurance	Private Equity	Singapore
AES Engineering	Manufacturer of mechanical seals and support systems	Private Equity	UK
Phibro Animal Health Corporation	Animal healthcare	Private Equity	US
Tato	Manufacture and sale of speciality chemicals	Private Equity	UK
Basic-Fit 	Discount fitness operator in Europe	Private Equity	Benelux
Amor 	Distributor and retailer of affordable jewellery	Private Equity	Germany
Eltel Networks 	Infrastructure services for electricity and telecoms networks	Private Equity	Finland
Memora 	Funeral service provider	Private Equity	Spain
GIF 	German headquartered international transmission testing specialist	Private Equity	Germany
Geka 	Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity	Germany
Palace Street I 	Debt Management (Credit Opportunities Fund)	Debt Management	Europe ³
OneMed Group 	Distributor of consumable medical products, devices and technology	Private Equity	Sweden
Etanco 	Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity	France
JMJ 	Global management consultancy	Private Equity	US
Refresco	Manufacturer of private label juices and soft drinks	Private Equity	Benelux
Labco	Diagnostics laboratories	Private Equity	France
Agent Provocateur 	Women's lingerie and associated products	Private Equity	UK
Inspecta 	Supplier of testing, inspection and certification (TIC) services	Private Equity	Finland

1 3i's original investment in Scandlines was valued at €116 million (£96 million) at 31 March 2014 (£123 million (£104 million) at 31 March 2013) following a partial realisation generating £7 million proceeds (£8 million) on reorganisation.

2 The residual cost of this investment cannot be disclosed per a confidentiality agreement in place at investment.

3 Managed in the UK, but has investments in Europe, North America and the UK.

 IFRS accounting subsidiary

 UK Companies Act subsidiary

The UK Companies Act defines a subsidiary based on voting rights, with a greater than 50% majority of voting rights resulting in an entity being classified as a subsidiary. IFRS 10 applies a wider test and if a Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control and hence the investee is deemed an accounting subsidiary.

First invested in	Valuation basis	Residual cost March 2013 £m	Residual cost March 2014 £m	Valuation March 2013 £m	Valuation March 2014 £m	Relevant transactions in the year
2011	Earnings	107	57	280	501	Refinancing returned £59m of proceeds in year
2007	Quoted	302	302	398	404	£21m dividends paid to 3i Group in year
2007	DCF	39	108	104	193	Purchase of ACP stake in November 2013 for £77m and return of £7m proceeds
2010	Earnings	70	78	112	124	
2008	Quoted	74	52	103	122	IPO in May 2013 partial sales throughout year generating £51m proceeds dividends of £2m received
2006	Earnings	87	113	97	116	
2007	Other	–	–	108	108	
2006	Industry metric	105	105	121	101	
1996	Earnings	30	30	79	96	
2009	Earnings	89	89	57	93	Value at March 2014 aligned to IPO completed in April 2014 dividends of £5m received during year
1989	Earnings	2	2	63	85	
2013	Earnings	–	84	–	82	New investment
2010	Earnings	49	50	57	70	
2007	Earnings	87	89	74	70	
2008	Earnings	128	141	90	67	
2013	Earnings	–	64	–	65	New investment
2012	Earnings	57	56	39	55	
2011	Broker quotes	50	54	48	53	£2m dividend received in period
2011	Earnings	113	108	47	44	
2011	Earnings	74	80	34	44	
2013	Earnings	–	44	–	43	New investment
2010	Earnings	46	46	27	42	Merger completed with Gerber Emig
2008	Earnings	66	66	37	36	
2007	Earnings	49	49	24	35	
2007	Earnings	63	73	31	34	
		1 687	1 940	2 030	2 683	

Portfolio valuation – an explanation

Policy

The valuation policy is the responsibility of the Board, with additional oversight and annual review from the Valuations Committee. Our policy is to value 3i's investment portfolio at fair value and we achieve this by valuing investments on an appropriate basis, applying a consistent approach across the portfolio. The policy ensures that the portfolio valuation is compliant with the fair value guidelines under IFRS and, in so doing, is also compliant with the guidelines issued by the International Private Equity and Venture Capital valuation board (the IPEV guidelines). The policy covers the Group's Private Equity, Infrastructure and Debt Management investment valuations. Valuations of the investment portfolio of the Group and its subsidiaries are performed at each quarter end.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines December 2012). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgment.

Private equity valuation

Determining enterprise value

To arrive at the fair value of the Group's Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. This enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date.

The majority of the rest of our portfolio, however, is represented by unquoted investments. These are valued, in the vast majority of cases, with reference to market comparables or to recent reported relevant transactions.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a marketability or liquidity discount. The marketability or liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing.

The table on page 158 of this document outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each.

Apportioning the enterprise value between 3i, other shareholders and lenders

Once we have estimated the enterprise value, the following steps are taken:

- 1 We subtract the value of any claims, net of free cash balances that are more senior to the most senior of our investments.
- 2 The resulting attributable enterprise value is apportioned to the Group's investment, and equal ranking investments by other parties, according to contractual terms and conditions, to arrive at a fair value of the entirety of the investment. The value is then distributed amongst the different loan, equity and other financial instruments accordingly.
- 3 If the value attributed to a specific shareholder loan investment in a company is less than its par or nominal value, a shortfall is implied which is recognised in our valuation. In exceptional cases, we may judge that the shortfall is temporary, to recognise the shortfall in such a scenario would lead to unrepresentative volatility and hence we may choose not to recognise the shortfall.

Other factors

In applying this framework, there are additional considerations that are factored into the valuation of some assets.

Impacts from structuring

Structural rights are instruments convertible into equity or cash at specific points in time or linked to specific events. For example, where a majority shareholder chooses to sell, and we have a minority interest, we may have the right to a minimum return on our investment.

Debt instruments, in particular, may have structural rights. In the valuation, it is assumed third parties, such as lenders or holders of convertible instruments, fully exercise any structural rights they might have if they are "in the money" and that the value to the Group may therefore be reduced by such rights held by third parties. The Group's own structural rights are valued on the basis they are exercisable on the reporting date.

Assets classified as "terminal"

If we believe an investment has more than a 50% probability of failing in the 12 months following the valuation date, we value the investment on the basis of its expected recoverable amount in the event of failure. It is important to distinguish between our investment failing and the business failing: the failure of our investment does not always mean that the business has failed, just that our recoverable value has dropped significantly. This would generally result in the equity and loan components of our investment being valued at nil. Value movements in the period relating to investments classified as terminal are classified as provisions in our value movement analysis.

Infrastructure valuation

The primary valuation methodology used for infrastructure investments is the discounted cash flow method (DCF). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk-adjusted premium and information specific to the investment or market sector.

Debt management valuation

The Group's Debt Management business line typically invests in traded debt instruments and the subordinated notes that it is required to hold in the debt funds which it manages. The traded debt instruments and the subordinated notes are valued using a range of data including broker quotes if available, original arranging bank models, 3i internal forecasts and models, trading data where available, and data from third-party valuation providers. Broker quotes and trading data for more liquid holdings are preferred.

Portfolio valuation – an explanation

Methodology	Description	Inputs	Adjustments	% of portfolio valued on this basis
Earnings (Private Equity)	Most commonly used Private Equity valuation methodology Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions where relevant with similar characteristics	Earnings multiples are applied to the earnings of the company to determine the enterprise value Earnings Reported earnings adjusted for non-recurring items such as restructuring expenses for significant corporate actions and in exceptional cases run-rate adjustments to arrive at maintainable earnings Most common measure is earnings before interest tax depreciation and amortisation (EBITDA) Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings Earnings multiples The earnings multiple is derived from comparable listed companies or relevant market transaction multiples We select companies in the same industry and where possible with a similar business model and profile in terms of size products services and customers growth rates and geographic focus We adjust for changes in the relative performance in the set of comparables	A marketability or liquidity discount is applied to the enterprise value typically between 5% and 15% using factors such as our alignment with management and other investors and our investment rights in the deal structure	65%
Quoted (Infrastructure/ Private Equity)	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	16%
Imminent sale (Infrastructure/ Private Equity)	Used where an asset is in a sales process a price has been agreed but the transaction has not yet settled	Contracted proceeds for the transaction or best estimate of the expected proceeds	A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds	1%
Fund (Infrastructure/ Private Equity/ Debt Management)	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	0%
Specific industry metrics (Private Equity)	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters or regulated asset bases for utilities	We create a set of comparable listed companies and derive the implied values of the relevant metric We track and adjust this metric for relative performance as in the case of earnings multiples Comparable companies are selected using the same criteria as described for the earnings methodology	An appropriate discount is applied depending on the valuation metric used	3%
Discounted cash flow (Private Equity/ Infrastructure)	Appropriate for businesses with long-term stable cash flows typically in infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data where possible or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	8%
Broker quotes (Debt Management)	Used to value traded debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned	No discount is applied	4%
Other (Private Equity)	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to separate elements as above	3%

For a small proportion of our smaller investments (less than 1% of the portfolio value), the valuation is determined by a more mechanical approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are measured using amortised cost and any implied impairment, in line with IFRS.

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

Information for shareholders

Financial calendar

Ex-dividend date	Wednesday 18 June 2014
Record date	Friday 20 June 2014
Annual General Meeting*	Thursday 17 July 2014
Final dividend to be paid	Friday 25 July 2014
Half-year results (available online only)	November 2014
Interim dividend expected to be paid	January 2015

* The 2014 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre Broad Sanctuary Westminster London SW1P 3EE on 17 July 2014 at 11 00am. For further details please see the Notice of Annual General Meeting 2014.

Information on ordinary shares

Shareholder profile Location of investors at 31 March 2014

UK	76.2%
North America	12.8%
Continental Europe	7.1%
Other international	3.9%

Share price

Share price at 31 March 2014	398p
High during the year (28 February 2014)	421p
Low during the year (8 April 2013)	304p

Dividends paid in the year to 31 March 2014

FY2013 Final dividend paid 26 July 2013	5.4p
FY2014 Interim dividend paid 8 January 2014	6.7p

Balance analysis summary

	Number of holdings individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2014	%
1-1 000	14 302	563	6 700 414 69	
1 001-10 000	5 995	979	16 103 544	1.66
10 001-100 000	177	364	179 676 84	1.85
100 001-1 000 000	18	280	107 095 833	11.02
1 000 001-10 000 000	0	107	313 220 781	32.23
10 000 001-highest	0	23	510 714 866	52.55
Total	20 492	2 316	971 803 122	100.00

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2014.

In the past some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas based "brokers" who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company. These approaches are operated out of what is more commonly known as a "boiler room". You may also be approached by brokers offering to purchase your shares for an upfront payment in the form of a broker fee, tax payment or de-restriction fee. This is a common secondary scam operated by the boiler rooms.

If you receive any unsolicited investment advice:

- always ensure the firm is on the Financial Conduct Authority ("FCA") Register and is allowed to give financial advice before handing over your money. You can check at www.fca.org.uk/register
- double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. This is important as there have been instances where an authorised firm's website has been cloned but with a few subtle changes such as a different phone number or false email address.
- check the FCA's list of known unauthorised overseas firms. However, these firms change their name regularly so even if a firm is not listed it does not mean they are legitimate. Always check that they are listed on the FCA Register and
- if you have any doubts, call the Financial Conduct Authority Consumer Helpline on 0800 111 6768. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

Information for shareholders

Annual reports and half-yearly reports online

If you would prefer to receive shareholder communications electronically in future including annual reports and notices of meetings please visit our Registrars website at www.shareview.co.uk/clients/3isignup and follow the instructions there to register

The 2014 half-yearly report will be available online only Please register to ensure you are notified when it becomes available

More general information on electronic communications is available on our website at www.3i.com/investor-relations/shareholder-information

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc including requests for further copies of the Report and accounts, please contact

Investor relations
3i Group plc
16 Palace Street
London SW1E 5JD

Telephone +44 (0)20 7975 3131
email IRTeam@3i.com

or visit the Investor relations section of our website at www.3i.com/investor-relations, for full up-to-date investor relations information including the latest share price results presentations and financial news

Registrars

For shareholder administration enquiries including changes of address please contact

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Telephone 0871 384 2031

Calls to this number are charged at 8p per minute from a BT landline, other telephony provider costs may vary Lines are open from 8.30am to 5.30pm Monday to Friday (International callers +44 121 415 7183)

3i Group plc

Registered office
16 Palace Street
London SW1E 5JD
UK

Registered in England No 1142830

An investment company as defined by section 833 of the Companies Act 2006

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