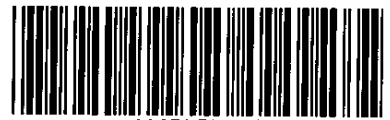


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3i Group plc  
**Annual report  
and accounts  
2017**

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## In this report

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pages 58 to 76 and  
95 to 99.

Directors' remuneration  
report: pages 77 to 94.

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For definitions of our financial terms,  
used throughout this report, please see  
our glossary on pages 162 and 164.

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

[www.3i.com](http://www.3i.com)

Consistent with our approach since the introduction of IFRS 10 in 2014, the financial data presented in the Overview and Strategic report is taken from the Investment basis financial statements. The Investment basis (which is unaudited) is an alternative performance measure ("APM") and is described on page 38 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 39 to 42.

#### Disclaimer

The Annual report and accounts have been prepared solely to provide information to shareholders. They should not be relied on by any other party or for any other purpose.

The Strategic report on pages 3 to 57, the Directors' report on pages 58 to 76 and 95 to 99, and the Directors' remuneration report on pages 77 to 94 have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by that law.

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.

## Introduction

Starting with capital of £15 million in 1945, 3i today is a leading international investor and manager focusing on private equity and infrastructure.

Our permanent capital is a distinct, competitive advantage. We use it to invest in opportunities where our active management approach, combined with our strong balance sheet, can create material value.

### What we do

3i is an investment company with two complementary businesses, Private Equity and Infrastructure, specialising in core investment markets in northern Europe and North America.

08 For more information

### Business model and strategy

We have a diverse investment portfolio and disciplined investment processes. This, together with our clear and consistent strategy, underpins our competitive advantage.

- 1 Grow investment portfolio earnings
- 2 Realise investments with good cash-to-cash returns
- 3 Maintain an operating cash profit
- 4 Use our strong balance sheet
- 5 Increase shareholder distributions

10 For more information

Overview

# Performance highlights

for the year to 31 March 2017

36%

Total return on equity  
(2016: 22%)

604p

NAV per share  
(31 March 2016: 463p)

26.5p

Full year dividend  
per share  
(2016: 22p)

£33m

Operating  
cash profit  
(2016<sup>1</sup>: £37m)

£982m

Private Equity  
realisation proceeds  
(2016: £743m)

£478m

Private Equity  
cash invested  
(2016: £365m)

£59m

Infrastructure operating  
cash income  
(2016: £49m)

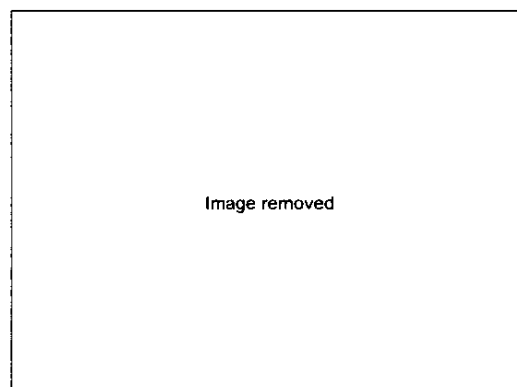
£479m

Advised 3i Infrastructure plc  
on six new investments  
(2016: £193m and four investments)

- 1 Certain financial measures used in our Annual Report, such as operating cash profit, are not defined under IFRS and are therefore termed APMs. Further details on APMs are included on page 43.
- 2 The sale of our Debt Management business completed on 3 March 2017. The total return from the Debt Management business sold to Investcorp has been classified as discontinued operations and the prior period results have been re-presented.
- 3 Operating cash profit has been redefined in the year and the prior year comparative restated. The rationale for the change together with the calculation is explained on page 31. Operating cash profit includes the result of Debt Management.

# Chairman's statement

“ Our clear strategy and focus on investment discipline and effective asset management delivered strong returns in FY2017. ”



The Group delivered another robust performance in FY2017. The sale of Debt Management, completed in March 2017, has simplified and focused the Group on its two principal businesses, both of which performed well. Private Equity delivered very strong returns, driven by significant portfolio earnings growth. Infrastructure continues to execute its updated strategy effectively, generating good returns with a strong pipeline of new business.

## Market environment

FY2017 was dominated by unexpected political events, including the UK's decision to leave the EU and the result of the US presidential election. These events created volatile conditions, but with supportive debt markets and high volumes of capital still seeking attractive investment opportunities in both Private Equity and Infrastructure, the market environment remains intensely competitive. Under these conditions, our permanent capital base, strong balance sheet and long-established business networks in our target sectors and geographies represent a distinct competitive advantage. They enable the Group to be agile and opportunistic while remaining focused on investment discipline and effective asset management.

## Performance and dividend

The Group's total return increased by 93% to £1,592 million (2016: £824 million). Net asset value increased to 604 pence per share (31 March 2016: 463 pence) and our return on opening shareholders' funds was 36% (2016: 22%). A strong market for realisations meant that we were, as anticipated, net divestors during FY2017. We repaid our €331 million bond in March 2017 and ended the year with a net cash balance of £419 million and liquidity of £1,323 million (31 March 2016: net cash of £165 million and liquidity of £1,352 million).

In recognition of the strong level of cash realisations (including the proceeds from the sale of our Debt Management business) and taking into account the strength of the investment pipeline, the Board has recommended a final dividend of 18.5 pence per share (2016: 16 pence per share) for FY2017. This is made up of the balance of the base dividend (8 pence per share, after the 8 pence interim dividend paid in January 2017) and an additional final dividend of 10.5 pence per share. The total dividend for the year of 26.5 pence per share reflects the Board's continuing confidence in the Group's future prospects and cash generation capability.

## Board changes

I am pleased to welcome Stephen Daintith, Chief Financial Officer of Rolls-Royce Holdings, who joined the Board on 1 October 2016. Stephen brings financial, operating and international experience across a range of relevant sectors, including consumer and digital, and has already made a strong contribution to the Board and its committees.

Martine Verluyten has decided not to seek re-election at the Annual General Meeting on 29 June 2017. I would like to thank Martine for her valuable contribution since 2012 during a period of significant transformation for the Group.

## Outlook

We enter FY2018 with a capable and experienced team of investors, a strong balance sheet, a high performing portfolio of assets, a good pipeline of new investment opportunities and a broadened platform in Infrastructure with good growth prospects. I am confident that the Group will remain opportunistic but disciplined as we navigate what promises to be another year of significant uncertainty.

Signature removed

Simon Thompson  
Chairman

## Chief Executive's review

“ FY2017 was another important year for 3i. Our Private Equity and Infrastructure businesses performed well and we simplified the Group by selling our Debt Management platform. Our efforts over the last few years in reshaping the portfolio mean we are now able to focus on active asset management and origination. ”

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We continued to make very strong progress at 3i in FY2017. Our financial results were excellent and underpinned by strong fundamentals.

Our Private Equity investment portfolio has undergone a major transformation over the last five years as we have sold many of the weaker, legacy assets and made new investments in good quality companies at attractive prices.

Our Infrastructure team has also been busy and assembled a sizeable economic infrastructure portfolio for 3i Infrastructure plc (“3iIN”), as well as pursuing a number of new initiatives to broaden our investment capability.

We sold our Debt Management business for £270 million during the year, as we were not confident that this business would meet our return requirements and justify its relative complexity in a more onerous regulatory environment in the future.

A measure of the success of these changes can be seen in this year's financial results; 3i generated a total return on shareholders' funds of £1,592 million, or 36% (2016: £824 million, or 22%), ending the year with a NAV per share of 604 pence (31 March 2016: 463 pence). Our results include the benefit of currency movements; 71% of the Group's assets are denominated in euros or US dollars and we generated a £297 million gain (2016: £143 million gain) from the weakness of sterling in the year. Cash realisations, including the proceeds from the sale of Debt Management, were strong at £1,308 million and we saw a good step forward in cash investment to £638 million. We finished the year with net cash of £419 million (31 March 2016: £165 million) and have announced a further good lift in the pay out to shareholders.

### A high quality Private Equity investment portfolio

Our plan with new Private Equity investments is simple, but the execution is not and requires diligence, discipline and good judgement. We aim to double the earnings of new investments under our ownership through operational improvements, international growth and careful M&A strategies. This year, 93% of our portfolio companies by value grew their earnings (2016: 84%).

Action was the strongest performer again; it is a very special company and a low price, consumer champion. As a fast growth, disruptive retailer, Action has been transformed by the successful execution

of its international expansion strategy. Store openings increased from 52 in 2012 to 197 in 2016 and Action now has more than 890 stores and annual sales in excess of €2.6 billion. The compound annual growth rates for sales and EBITDA since 2012 exceed 30%, like for like growth rates are 6%–7% per annum and cash flow is strong. This sector-leading performance under our ownership has already resulted in cash distributions to 3i equivalent to 4.9x our original investment.

There is still plenty of runway for expansion at Action and potential for further rapid value growth for 3i. Action has been welcomed in each country it has opened in and its store opening programme now covers six countries and more new stores are planned in 2017 over 2016. Action is also set to open its fourth and fifth distribution centres in 2017. Such material growth requires strong operational capability and Action, with support from 3i, is focused on managing the risks associated with this rapid growth by enhancing its teams and other resources in logistics, direct sourcing, IT and inventory control to meet the increasing demands of the business.

But 3i is not just about Action. The portfolio we have constructed in recent years, our 2013–16 vintage, produced a gross investment return of 29% in FY2017, and is already a top quartile performer, valued on a multiple of 1.7x (31 March 2016: 1.5x).

The performance of Scandlines has accelerated since our further investment in 2013. We expect further delays to the competing Rødby Puttgarten tunnel project, while the business continues to generate good levels of cash flow and earnings growth.

A fundamental part of our investment strategy is to facilitate the international expansion of our portfolio companies. Since our investment in 2013, ATESTEO, the world's leading drivetrain testing services provider to the automotive industry, has increased the utilisation of its testing facilities in Germany and expanded its Chinese footprint. As a result, its Chinese capacity has doubled and sales have increased by more than 100%. The outlook looks promising, with further expansion in China and North America in progress.

Aspen Pumps, Audley Travel, Basic-Fit, Q Holding and Euro-Diesel also performed well, with strong, organic earnings growth. However, it is inevitable that there will be some challenges in any broad-based Private Equity portfolio and our high street retailer, Christ, suffered from declining footfall.

As mentioned earlier, we have refocused our model and have largely exited the older and often minority investments that we invested in before the strategic review in 2012. Many of these assets have required a great deal of asset management. Some, but not all, have been a significant drag on the value growth of our portfolio over the last few years.

In August 2016, we became aware of accounting irregularities at Agent Provocateur which had concealed its true financial position and lack of liquidity. We wrote down the investment to nil and the business was subsequently sold through an administration process, with the proceeds being insufficient to return any value to 3i, resulting in a total write-down in the year of £49 million.

In total, our Private Equity realisation activity produced approximately £1 billion of cash proceeds this year (2016: £718 million) at good return multiples and we now own a leaner, higher-performing portfolio of 37 assets and three quoted stakes (2016: 47 assets and five quoted stakes).

Our permanent capital is a distinct competitive advantage. It ensures we can be flexible and opportunistic and it is a fundamental aspect of our differentiated strategy. It enables us to hold assets for longer periods if we believe that there is potential for additional value creation. This is particularly important in an economic environment where there are limited opportunities for attractive new investment at sensible prices.

We are well established in continental Europe and were the first private equity firm to set up a number of offices across Europe. Our brand and local investment teams are held in high regard in these markets and we enjoy good visibility over the deal flow in our chosen sectors. As the requirements of managing the older assets have diminished, we have been able to source and complete more new investment opportunities.

We completed new investments in BoConcept, Schlemmer and Ponroy Santé together with a further investment in Q Holding to support its acquisition of Degania in FY2017. A German investment, Lampenwelt, and a Dutch investment, Hans Anders, were announced in March 2017 and April 2017 respectively and should complete by the end of June 2017. We also announced an investment in Formel D in May 2017.

### A year of exceptional investment activity in Infrastructure

Our Infrastructure business has achieved good growth since 3iN's change of strategy and update to its return target, announced in May 2015. Although the infrastructure market is very competitive, particularly for larger economic infrastructure assets, 3iN's revised investment strategy enabled the business to compete with confidence for assets that fitted its current mid-market remit. We advised 3iN on £479 million of new investments in total in the year and have recruited selectively to ensure that we have the strength and depth to manage the investment portfolio, as well as boost origination.

To support this expansion, we maintained our 34% share of 3iN in its June 2016 capital raise, the proceeds of which have since been fully invested. The 3iN shares have performed strongly, generating a total shareholder return of 16% in the year (2016: 13%).

Overview

# Chief Executive's review

continued

Over the last year, we have been working on a number of new fund platforms, one in North America and two in Europe, to broaden our capabilities and deal flow and complement our mandate as investment adviser to 3iN.

In Europe, we announced the launch of a new £700 million fund, managed by 3i, to purchase a portfolio of assets from the EISER Global Infrastructure fund. Post year end, 3i invested £35 million in this fund, alongside two pension fund investors. Our Infrastructure business manages two funds dedicated to operational PPP and renewables projects, one of which was coming to the end of its investment life. In April 2017, we seeded a new fund with substantially all of its remaining assets. 3i has committed up to €40 million to this fund alongside a group of external investors and we expect a final close later on in the year. We launched our North American Infrastructure business in March 2017 as a natural and key strategic extension of 3i's established European platform.

## Continuing to focus on driving performance

Following our successful disposal of Debt Management we have a more streamlined investment capability, focused on Private Equity and Infrastructure, and built on our proprietary capital foundation, with a growing fund management capability in Infrastructure. The broader macro-economic back-drop has improved over the last year and we see generally decent GDP growth ahead in our main markets of northern Europe and North America.

However, the market for new investment remains challenging. High asset valuations, together with intense competition from corporate buyers and other private equity investors, mean that maintaining our selective and disciplined approach is essential in order to continue to generate attractive returns.

## Outlook

3i is now performing as it should, with careful investment and active asset management generating very strong returns. The broader environment remains volatile and challenging but we remain confident in our ability to deliver continued, good growth for shareholders. We have strong investment capabilities in both our divisions and our well-established international network, together with our proprietorial approach, give us real competitive advantage.

We will avoid complacency and maintain our disciplined approach to investment and the costs of our platform, as well as maintaining our focus on the mid market where we see the most attractive opportunities. This approach should underpin high returns for shareholders, together with healthy cash dividends.

I would like to thank the 3i team for their hard work and contribution to what has been an excellent year for the Group. 3i is now a much more balanced and resilient business, with a clear strategy and a well-funded balance sheet.

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**Simon Borrows**  
Chief Executive

# Action

Overview

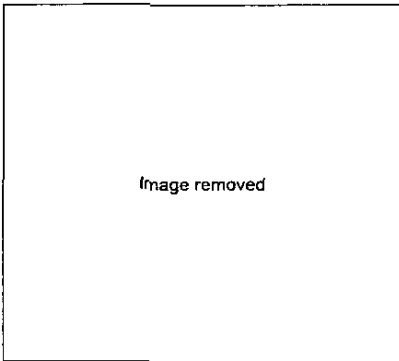


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Action is Europe's fastest growing non-food retailer with more than 890 stores in six countries. It offers over 6,000 different items, with more than 150 new products a week and its range includes an increasing number of A-brands and own-label products.

Action offers its customers more than they expect, for less than they imagine. The combination of a wide and ever-changing range of products at the lowest possible prices, as well as friendly and motivated staff, is what makes Action a unique retail formula. More than half of the people that shop at Action arrive home with more products than they initially planned to buy.

Action's model is successful because it is simple. There is a single formula for all of its stores, regardless of location. Its product range consists of 13 categories, with products sourced from over 400 suppliers, offered at low prices due to Action's scale and highly efficient supply chain. It buys in large volumes and stocks its stores daily from its distribution centres in the Netherlands and France.

For Action, 2016 was a record breaking year. It opened its third distribution centre, its 100th store in Germany and its 200th store in France. In total, 197 stores were opened in 2016 and another 6,000 people were employed in six countries, taking the total headcount to 35,000. In 2012, Action employed 11,500 people.

The charts below demonstrate that Action is an outstanding company. It is well positioned in the growing non-food discount market with superior earnings and cash conversion capability relative to its peers.

For more information, visit [www.action.nl](http://www.action.nl)

Private Equity

Infrastructure

Financial review, Risk and Corporate responsibility

Corporate Governance

## £106m

Invested in September 2011

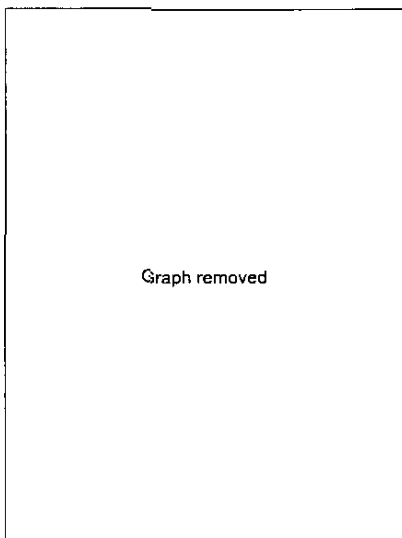
## £1,708m

Value at March 2017

Audited financial statements

Portfolio and other information

Net sales (€m)

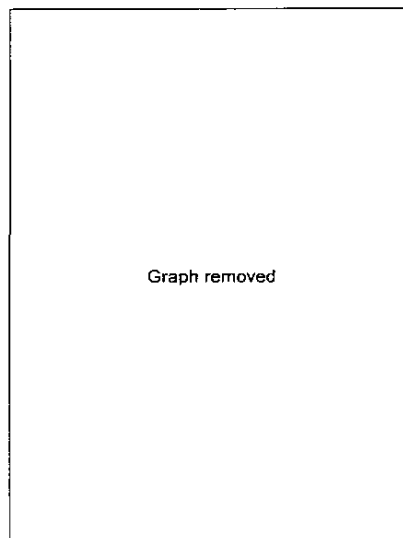


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Sales CAGR

### 32%

EBITDA (€m)



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EBITDA CAGR

### 33%

# Our business at a glance

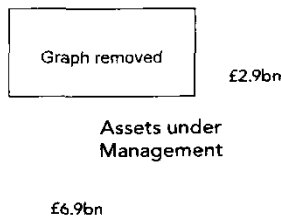
3i is an investment company focused on Private Equity and Infrastructure, investing primarily in northern Europe and North America.

## Private Equity

**£4,831m**  
Proprietary capital value

## Infrastructure

**£706m**  
Proprietary capital value



### Activity

- Investment and asset management to generate capital returns
- Investing in companies typically with an Enterprise Value of €100m–€500m at acquisition in our core investment markets of northern Europe and North America
- Focused on three sectors: Consumer, Industrial and Business and Technology Services
- Portfolio of 37 unquoted assets and three quoted stakes

**16** [Read more about Private Equity](#)

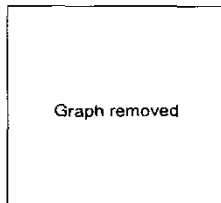
### Activity

- Investment and asset management to generate capital returns and cash income
- Investment Adviser to 3iN
- Investing in economic infrastructure and greenfield projects in developed economies, principally in Europe
- Increasing fund management capability with the launch of two new managed funds in Europe and a new North America Infrastructure platform

**25** [Read more about Infrastructure](#)

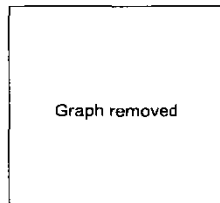
### Investment profile – AUM<sup>1</sup>

Breakdown by geography



Northern Europe  
North America  
UK  
Other

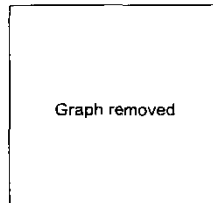
Breakdown by sector



Consumer  
Industrial  
Business and Technology Services  
Other

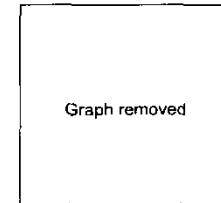
### Investment profile – AUM<sup>1</sup>

Breakdown by investment vehicle



3i Infrastructure plc  
India fund  
Partnership funds

Breakdown by geography



Europe  
India

<sup>1</sup> Our definition of AUM was refined in the year. Further details are included in the Glossary on page 162. We also hold £138 million of retained Debt Management investments not sold to Investcorp and these are classified as "Other" within our Annual report and accounts. These investments are not included in the charts above.

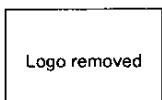
# Business activity

## Selected highlights in FY2017

**Ponroy Santé**  
New investment

**£122m**

(January 2017)



**Basic-Fit**  
Proceeds from IPO

**£82m**

(June 2016)

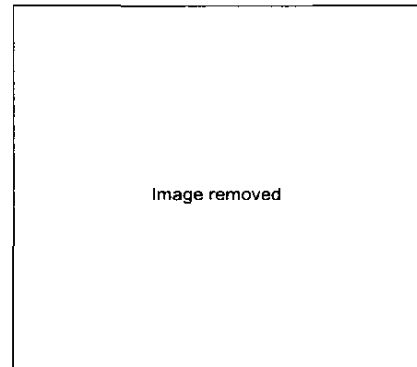
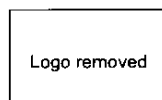


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**Schlemmer**  
New investment

**£155m**

(August 2016)

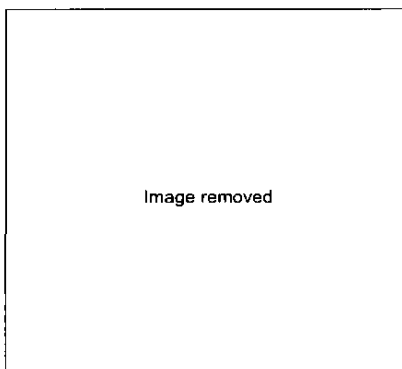
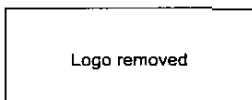


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**Action**  
Proceeds from refinancing

**£187m**

(December 2016)

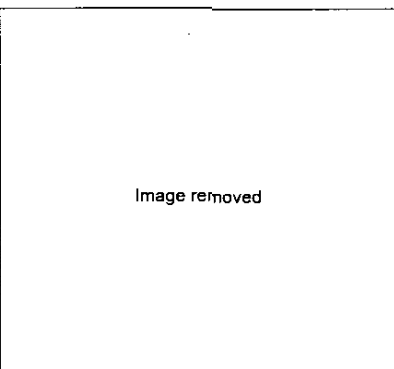
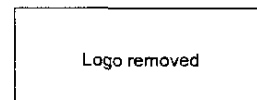


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**TCR**  
Advised 3iN on its investment

**£151m**

(July 2016)

**3iN**  
Participation in capital raise

**£131m**

(June 2016)

# How we create value

## Our business model

Our expertise and proprietary capital differentiate our investment proposition and underpin our capability to deliver growth and returns to shareholders.

12 Our strategic objectives

# 1

## Key resources

### Expert people

Our asset management capability is built on the strength of our people. Our investment professionals have deep knowledge in their core markets and sectors.

We are committed to offering our people the best training and development opportunities to ensure that they operate at the highest level.

### Network

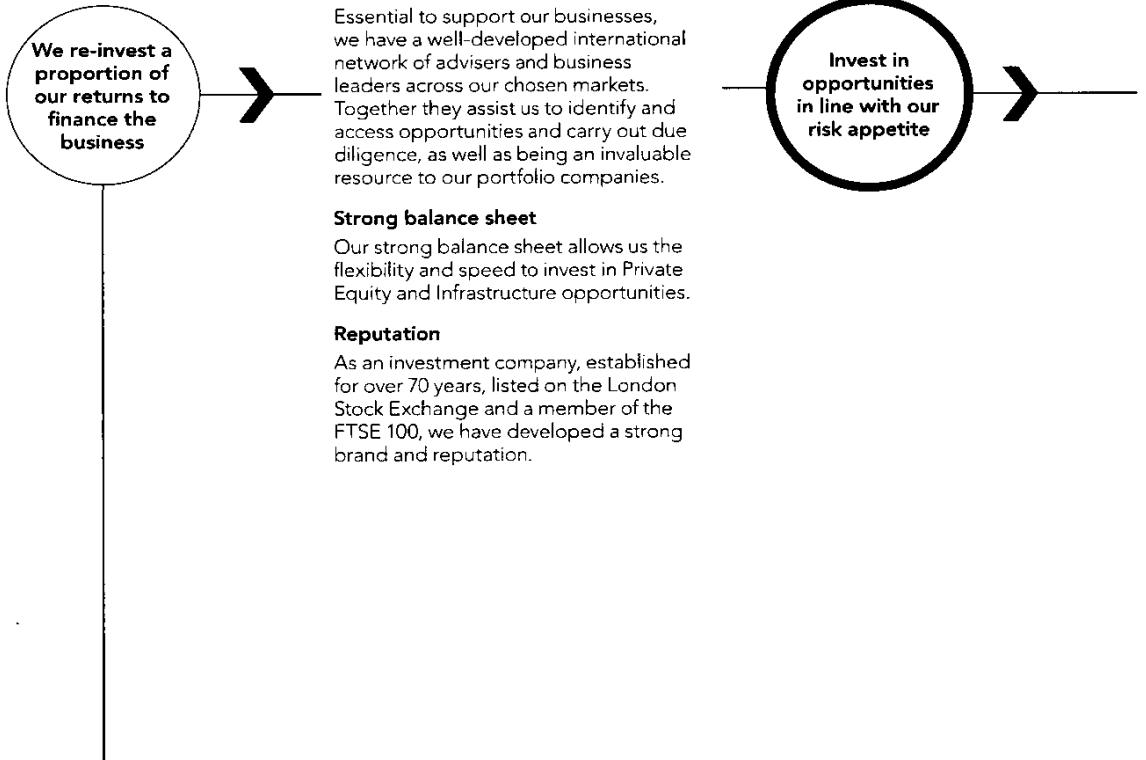
Essential to support our businesses, we have a well-developed international network of advisers and business leaders across our chosen markets. Together they assist us to identify and access opportunities and carry out due diligence, as well as being an invaluable resource to our portfolio companies.

### Strong balance sheet

Our strong balance sheet allows us the flexibility and speed to invest in Private Equity and Infrastructure opportunities.

### Reputation

As an investment company, established for over 70 years, listed on the London Stock Exchange and a member of the FTSE 100, we have developed a strong brand and reputation.



# 2

## What we do

Private Equity	Infrastructure
<b>Disciplined approach</b>	
Our institutional investment platform ensures a consistent approach to making investment and divestment decisions	
▼	
<b>Active management</b>	
Our robust portfolio monitoring enables us to pursue opportunities for growth as well as to identify issues promptly	
▼	
<div style="border: 1px solid black; width: 100%; height: 150px; display: flex; align-items: center; justify-content: center;"> <p>Graph removed</p> </div>	
Capable of generating mid to high teens returns through the cycle	

# 3

## Value created

Total Return  
**£1,592m**  
**36%**

Dividend  
**26.5p**

Cash realisations  
**£1,308m**

Generate returns for our shareholders

**16** [Read more about Private Equity](#)

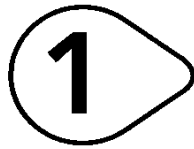
**25** [Read more about Infrastructure](#)

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Overview

## Our strategic objectives

We focus on opportunities where our sector and market expertise, combined with our strong capital position, can create material value for our stakeholders.



Grow investment portfolio earnings



Realise investments with good cash-to-cash returns



Maintain an operating cash profit



Use our strong balance sheet



Increase shareholder distributions

**FY2017 progress**

Percentage of Private Equity portfolio companies<sup>1</sup> (by value) that grew earnings in FY2017

**93%**

Private Equity proceeds

**£982m**

Operating cash profit<sup>2</sup> including Debt Management

**£33m**

**£478m** invested in Private Equity

**£131m** invested in Infrastructure

Dividend

**26.5p**

**FY2018 outlook**

- Action's pace of growth is expected to continue, with further expansion planned in France and Germany
- Positive outlook for the portfolio invested in since the strategic review in 2012
- Macro-economic pressures expected to continue, particularly in the high street retail sector
- Portfolio to contain fewer problem legacy assets

- Expect realisations to be at least £750 million, subject to market conditions

- New Infrastructure initiatives expected to generate cash income that will partially offset the loss of Debt Management income
- Continue to focus on generating income where appropriate from the Private Equity portfolio
- Cost discipline to be maintained

- Plan to invest up to £750 million p.a. in four to seven Private Equity investments, whilst maintaining discipline on entry prices
- Manage 3iN's new investments actively and source further investment opportunities
- Support Infrastructure's new fund management initiatives in Europe and North America

- Committed to pay a base dividend of 16 pence per share in respect of FY2018
- The amount of the additional dividend will be subject to the level of investment, realisations and balance sheet strength

**16** For further information see the Private Equity section

**16** For further information see the Private Equity section

**30** For further information see the Financial review

**30** For further information see the Financial review

**03** For further information see the Chairman's statement

<sup>1</sup> Includes 22 companies valued on an earnings basis, Basic-Fit and Scandlines

<sup>2</sup> Operating cash profit is an APM. Further details are included on page 31

Overview

# Key performance indicators

KPI		Link to strategic objectives	
<p><b>Gross investment return ("GIR")<sup>1</sup></b> as % of opening portfolio value</p>	<p>The performance of the proprietary investment portfolio expressed as a percentage of the opening portfolio value.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>① Grow investment portfolio earnings</li> <li>② Realise investments with good cash-to-cash returns</li> </ul>
<p><b>Cash realisations<sup>1</sup></b> £m</p> <p><small>Cash realisations Proceeds from the sale of Debt Management</small></p>	<p>Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>② Realise investments with good cash-to-cash returns</li> <li>⑤ Increase shareholder distributions</li> </ul>
<p><b>Cash investment<sup>1</sup></b> £m</p>	<p>Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns. We also invest further capital in existing investments.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>① Grow investment portfolio earnings</li> <li>④ Use our strong balance sheet</li> <li>⑤ Increase shareholder distributions</li> </ul>
<p><b>Operating cash profit/(loss)<sup>2</sup></b> £m</p>	<p>By covering the cash operating cost of running our business with cash income, we reduce the potential dilution of capital returns.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>③ Maintain an operating cash profit</li> <li>⑤ Increase shareholder distributions</li> </ul>
<p><b>Net Asset Value ("NAV") per share</b> pence</p>	<p>The measure of the fair value per share of our proprietary investments after the net cost of operating the business.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>① Grow investment portfolio earnings</li> <li>② Realise investments with good cash-to-cash returns</li> <li>③ Maintain an operating cash profit</li> </ul>
<p><b>Total shareholder return ("TSR")</b> %</p> <p><small>Dividends Share price</small></p>	<p>The return to our shareholders through the movement in the share price and dividends paid during the year.</p>	<p>Graph removed</p>	<ul style="list-style-type: none"> <li>⑤ Increase shareholder distributions</li> </ul>

<sup>1</sup> A number of our KPIs are calculated using financial information which is not defined under IFRS and therefore they are classified as APMs. Further details on these APMs are included in our Financial review on page 43.

## FY2017 progress

- Another year of strong performance with a GIR in Private Equity of £1,624 million or 43% and a Group GIR of £1,755 million or 40%
- Action performed strongly, opening 197 new stores in calendar year 2016 and continuing to show growth in like-for-like sales
- 2013–16 vintage investments, such as ATESTEO, Audley Travel and Aspen Pumps delivered a GIR of 29%
- 3iN delivered a TSR of 16% and Infrastructure generated £59 million of cash income to the Group
- Material devaluation of sterling resulted in a gain on translation of £269 million

## Key risks

- Investment rates or quality of new investments are lower than expected
- Subdued M&A activity and/or reduced prices in 3i's core sectors could impact timing of exits and cash returns
- Operational underperformance in the portfolio companies impacts earnings growth and exit plans
- Sterling materially strengthens against the euro and US dollar; at 31 March 2017, 71% of the portfolio was denominated in euros or US dollars

- Private Equity generated proceeds of £982 million from the disposal of nine companies, the refinancing of two assets and the full realisation of three quoted stakes
- We sold our Debt Management business to Investcorp for cash proceeds of £270 million

- Subdued M&A activity in our core sectors reduces investor appetite for our assets
- Macro-economic uncertainty limits investor appetite for the Private Equity asset class
- Debt markets become less supportive of leveraged buyouts

- Invested £478 million (2016: £365 million) in three new Private Equity investments and in a further investment in Q Holding to support its acquisition of Degania
- Supported 3iN's capital raise in June 2016, investing £131 million (2016: nil) to maintain our 34% stake

- Competition from other private equity investors, as well as trade and other strategic buyers, could make it more challenging to source investments at prices that will meet our return targets
- Failure to attract, invest in and retain the right investment executives impacts our ability to originate and manage assets
- Failure to maintain and develop our network of advisers and business leaders reduces the quality of potential deal flow

- Continued to benefit from Debt Management's cash income in the first half of the year
- Operating cash profit from Private Equity, Infrastructure and the retained Debt Management investments was £5 million
- Measure redefined in FY2017 to be cash income less cash expenses (previously it was defined as cash income less accrued expenses)

- Portfolio performance, and therefore portfolio income is weak
- Reduced ability to generate interest and dividend income in a private equity structure
- Investor appetite in a volatile macro-economic environment
- New Infrastructure initiatives do not generate sufficient fee income
- Unplanned increase in the cost base; for example legal, compliance or regulatory costs

- 30% increase in NAV per share to 604 pence (31 March 2016: 463 pence)
- Excellent GIR from Private Equity
- Performance is strong with or without the benefit of foreign exchange movements

- Ongoing geo-political uncertainty further dampens investor sentiment
- Implications of the UK's decision to leave the EU and further negative implications of the US presidential election
- Wider G20 political and economic uncertainty impacts 3i's portfolio companies and valuations

- TSR of 71% as share price increased by 64% in the year, together with the final FY2016 dividend of 16.0 pence and interim FY2017 dividend of 8.0 pence
- Net divestment, strong balance sheet and closing net cash support a full year dividend of 26.5 pence

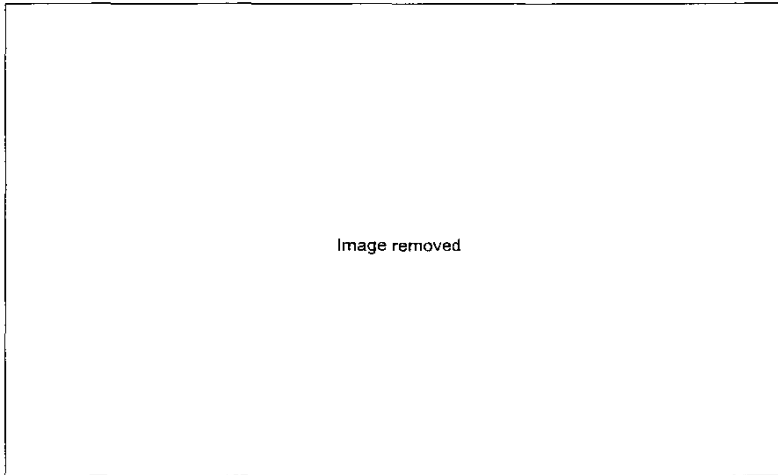
- Lower NAV due to investment underperformance or political and economic uncertainty
- Investor appetite in a volatile macro-economic environment

<sup>2</sup> Operating cash profit has been redefined in the year and the FY2016 comparative restated. The rationale for the change together with the revised calculation is explained on page 43. The balances include the contribution of the Debt Management business sold to Investcorp

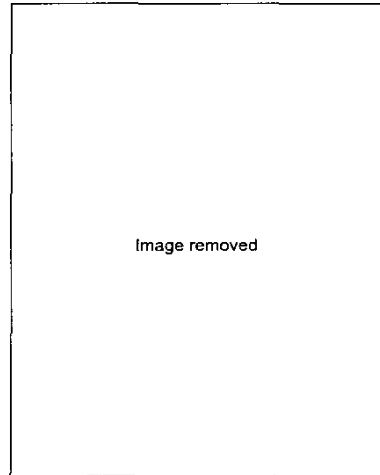
# Private Equity

Top ten investments<sup>1</sup>

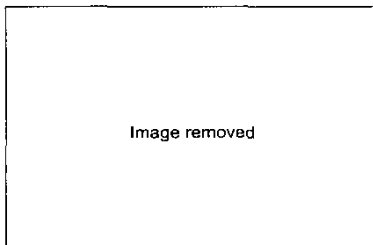
## ① Action



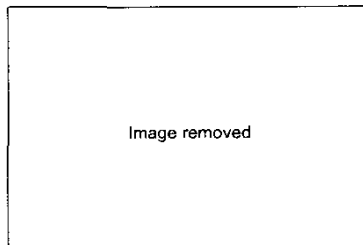
## ② Scandlines



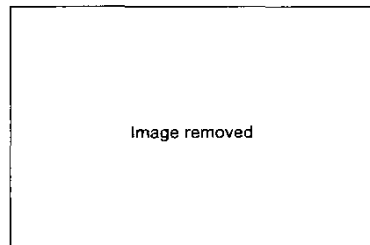
## ③ Q Holding



## ④ Weener Plastic



## ⑤ Audley Travel



## ⑥ Basic-Fit

## ⑦ ATESTEO

## ⑧ Schlemmer 18

## ⑨ BoConcept 17

## ⑩ Ponroy Santé 19

<sup>1</sup> This does not include one investment that has been excluded for commercial reasons

# Investments in the year

Overview

Private Equity

Infrastructure

Financial review, Risk and Corporate responsibility

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Audited financial statements

Portfolio and other information

## BoConcept

# £132m

invested

Established in 1952, BoConcept has evolved into a leading developer of interior design and furniture concepts and built a strong following. It is now present in more than 60 markets through a network of c.250 brand stores.

BoConcept is a successful international brand with a proven track record and customer appeal worldwide, and active in an attractive segment of the market. We are supporting management in continuing the successful international store roll-out by leveraging the strength of the store concept and product collection. In addition, we will support the company in accelerating its efforts to build a multi-channel presence, as well as expanding its fast-growing B2B business.

For more information, visit [www.boconcept.com](http://www.boconcept.com)

Image removed

Private Equity

# Investments in the year

continued

## Schlemmer

# £155m

invested

Schlemmer is a global leader in cable management solutions for the automotive industry. Founded in 1954 and headquartered near Munich, Germany, Schlemmer develops and produces cable protection, as well as air and fluid handling systems, for automotive and commercial applications. It offers a well-diversified product portfolio, operates a global manufacturing network of 26 plants in 21 countries and employs 2,900 people.

As well as benefiting from the expected future growth of the automotive industry, the cable management sector is well positioned to take advantage of megatrends such as connectivity, e-mobility, and autonomous driving and safety, which are shaping the car industry. We will work with the Schlemmer team to build on the company's strength in Europe and Asia, and further grow its global footprint by strengthening its presence in the US market.

For more information, visit  
[www.schlemmer.com](http://www.schlemmer.com)

Image removed

## Ponroy Santé

# £122m

invested

Ponroy Santé Group ("Ponroy Santé") was founded in 1975 and is headquartered in Boufféré, near Nantes, France. It manufactures a wide range of natural healthcare and cosmetics products ranging from functional and natural food supplements (for stress control, energy and memory boosters, sleeping aids etc.) to natural cosmetics and hygiene products for adults and babies. It owns several well-known brands, including Biolane, Yves Ponroy, Vitarmony, Manhaé, Lécitone, Force G, Ultrabiotique and Naturé Moi.

As well as benefiting from the expected organic growth coming from global trends in natural healthcare and well-being, Ponroy Santé is well positioned to participate actively in the consolidation taking place in this highly fragmented market. We will work with Ponroy Santé's management team to build on the company's strength in Europe to expand its international footprint, especially in Asia. Additionally, we will identify and analyse external growth opportunities using our global network and strong experience in buy and build strategies. Lastly, we will support the management team in implementing a coherent digital strategy for its different brands.

For more information, visit  
[www.ponroy.com](http://www.ponroy.com)  
[www.vitarmony.com](http://www.vitarmony.com)  
[www.biolane.fr](http://www.biolane.fr)

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## Business review

Private Equity performed very strongly in FY2017. Although it was a year of political change, with financial markets subject to periods of significant volatility, our portfolio generated excellent returns with a GIR of £1,624 million or 43% on the opening portfolio (2016: £1,011 million, 32%).

We recognised value growth in excess of £1.25 billion, with strong performance from assets such as Action and Scandlines, together with very good progress from investments made in the more recent 2013–2016 vintage. With over 81% of the portfolio denominated in euros or US dollars, the sharp fall in sterling that followed the UK's decision to leave the EU resulted in a translation gain of £248 million (2016: £168 million).

### Investment activity

We completed three new investments in the year and made a material further investment.

In July 2016, we invested DKK1,144 million (£132 million) in BoConcept, an urban living brand headquartered in Denmark. This was a public-to-private transaction where the majority of the shares were owned by the founding family. In August 2016, we invested €182 million (£155 million) in Schlemmer, a global leader in cable management solutions for the automotive industry, headquartered in Germany. In January 2017, we completed our €141 million (£122 million) investment in Ponroy Santé, a manufacturer of natural healthcare and cosmetics products. All three companies have strong market positions and 3i will use its experience to help them expand internationally, maximise market opportunities and drive operational efficiencies.

An important component of enhancing the strategic value of our investments is our ability to enable transformative M&A in our portfolio companies. In December 2016, we invested €62 million in Q Holding to support its acquisition of Degania. This transaction almost doubles Q Holding's medical revenues and diversifies its product mix and geographic exposure.

The availability of capital, together with favourable debt financing terms, continues to attract investors to the Private Equity asset class and so our price discipline remains essential. Our local teams have been able to find an interesting range of investment opportunities, both for 3i and its portfolio companies, particularly in Europe.

In addition to the £478 million investment in the year to 31 March 2017, we announced investments in Lampenwelt (€120 million), a German online lighting retailer and Hans Anders (€200 million), a leading optical retailer in the Benelux, in March 2017 and April 2017 respectively. Both investments should complete by the end of June 2017. We also announced an investment in Formel D, the leading quality services provider for the automotive industry, in May 2017.

**Table 1: Private Equity cash investment** in the year to 31 March 2017

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
BoConcept	New	Urban living brand	July 2016	133	132
Schlemmer	New	Provider of cable management solutions for the automotive industry	August 2016	156	155
Ponroy Santé	New	Manufacturer of natural healthcare and cosmetics products	January 2017	135	122
Q Holding (Degania)	Further	Manufacturer of precision engineered elastomeric components	December 2016	63	62
Agent Provocateur	Further	Women's lingerie and associated products	Various	14	8
Other		n/a	n/a	(1)	(1)
<b>Total Private Equity investment</b>				<b>500</b>	<b>478</b>

## Realisations activity

As market conditions remained favourable, we had a very strong year for realisations and generated £982 million of proceeds at an average money multiple of 3.7x. We disposed of nine unquoted investments, including older investments such as Mayborn, Lekolar and Polyconcept, and more recent investments such as Geka. We also took advantage of supportive equity market conditions to exit or reduce a number of quoted holdings, generating proceeds of £154 million (2016: £111 million).

We continue to refinance our most cash generative assets where appropriate for the business, and where market conditions allow. Due to Action's strong growth and cash flow generation, it was able to de-lever rapidly during 2016 ahead of a €1.675 billion refinancing in December 2016. The proceeds were used to refinance the existing debt and fund a distribution to shareholders. As a result, 3i received £187 million of proceeds.

Since investment, Action has returned £526 million of refinancing proceeds to 3i, a 4.9x sterling cash return on the original investment.

In addition, we took the opportunity to refinance the debt in ATESTEO in June 2016. Its strong EBITDA growth since our investment facilitated a refinancing and return of £48 million to 3i.

During the year, we completed the successful exits of Mayborn (3.5x) and Amor (2.3x). Both had been valued on an imminent sales basis at 31 March 2016. In March 2017, Agent Provocateur went into administration, giving rise to a realised loss of £49 million on our investment. In aggregate, we generated total realised profits of £38 million in the year, an uplift over opening value of 5%, excluding refinancings (2016: £67 million and 14%).

We continue to make good progress towards our longer-term plan to hold a portfolio of 30 to 40 assets. As at 31 March 2017, the portfolio had reduced to 37 assets and three quoted stakes (31 March 2016: 47 assets and five quoted stakes).

**Table 2: Private Equity realisations** in the year to 31 March 2017

Investment	Country/region	Calendar year invested	31 March 2016 value £m	3i realised proceeds £m	Profit/(loss) in the year <sup>2</sup> £m	Uplift on opening value <sup>2</sup> %	Residual value £m	Money multiple over cost <sup>3</sup>	IRR
<b>Full realisations</b>									
Mayborn	UK	2006	135	136	3	2%	nil	3.5x	17%
Quintiles	USA	2008	92	107	10	10%	nil	3.3x	23%
Amor	Germany	2010	87	88	2	2%	nil	2.3x	18%
Geka	Germany	2012	55	85	27	47%	nil	1.8x	16%
Polyconcept	UK	2005	37	44	3	7%	nil	2.1x	7%
Eltel	Sweden	2007	20	20	1	5%	nil	1.0x	(1)%
UFO Moviez	India	2007	12	16	3	23%	nil	2.9x	16%
GO Outdoors	UK	2012	17	21	5	31%	nil	1.0x	1%
Loxam	France	2011	22	40	16	67%	nil	1.9x	13%
Lekolar	Sweden	2007	29	34	4	13%	nil	1.6x	5%
ESG	UK	2007	22	30	8	36%	nil	1.4x	12%
Agent Provocateur	UK	2006	42	-	(49)	(100)%	nil	-	-%
<b>Partial realisations<sup>1,3</sup></b>									
Basic-Fit <sup>4</sup>	Benelux	2013	82	82	nil	-%	184	3.3x	49%
Scandlines	Denmark/ Germany	2007/2013	16	16	nil	-%	538	4.6x	31%
Refresco Gerber	Benelux	2010	13	11	(2)	(15)%	32	1.8x	11%
Other	n/a	n/a	13	10	1	n/a	60	n/a	n/a
<b>Refinancings<sup>3</sup></b>									
ATESTEO	Germany	2013	48	48	nil	-%	160	2.7x	40%
Action	Benelux	2011	187	187	nil	-%	1,708	20.8x	84%
<b>Deferred consideration</b>									
Other	n/a	n/a	1	7	6	n/a	1	n/a	n/a
<b>Total Private Equity realisations</b>			<b>930</b>	<b>982</b>	<b>38</b>	<b>4%</b>	<b>2,683</b>	<b>3.7x</b>	<b>n/a</b>

1 For partial realisations, 31 March 2016 value represents value of stake sold.

2 Cash proceeds in the period over opening value realised

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

4 Proceeds returned to 3i through the repayment of shareholder loans.

# Business review

continued

## Portfolio valuation

The strong performance of the portfolio resulted in unrealised value growth of £1,274 million (2016: £690 million).

## Performance

The continued strong performance of the investments valued on an earnings basis resulted in an increase in value of £827 million (2016: £460 million) with the most significant contribution coming from Action. For its year ended 31 December 2016, Action reported sales of €2.675 billion (a 34% increase over 2015), a 37% increase in operating EBITDA, and 6.9% like-for-like sales growth and opened 197 new stores in six countries. Action has delivered EBITDA CAGR growth in excess of 30% p.a. since 3i's investment in 2011. Since 2013, our previous valuations have used run-rate adjusted earnings for the 12 months to the quarter end preceding the reporting period. For the valuation of Action at 31 March 2017, we have refined our valuation methodology better to reflect its consistent financial delivery. As is typical for retail businesses, Action prepares its results in four weekly periods. At 31 March 2017, we are valuing this investment using run-rate earnings to 26 March 2017, the closest period end to 3i's. The valuation earnings increased by 33% in the last 12 months and, as at 31 March 2017, Action was valued at £1,708 million (2016: £902 million). As the largest Private Equity investment by value, it represented 35% of the Private Equity portfolio (2016: 24%).

The investments in our 2013–16 vintage are delivering good earnings growth, with assets such as ATESTEO, Aspen Pumps, Audley Travel, Q Holding and Euro-Diesel showing good value uplifts in the year.

We invested in ATESTEO in 2013 and have transformed it from an owner-managed diversified engineering company into a world leading testing and industrial specialist for the automotive industry. Its earnings have almost doubled under our ownership; driven by a 30% increase in testing capacity through opening a new facility in Germany and the expansion of its Chinese operations.

Aspen Pumps is the global leader in the design and assembly of condensate removal pumps, accessories for air conditioning ("AC") installers and rooftop support systems for AC products. It had a strong 2016, financially and operationally, as it continued to gain market share in its core markets. It also completed two small acquisitions, designed to allow direct control of its distribution channels and product bolt-ons.

**Table 3: Unrealised profits/(losses) on the revaluation of Private Equity investments<sup>1</sup> in the year to 31 March**

	2017 £m	2016 £m
Earnings based valuations		
Performance	827	460
Multiple movements	239	95
Other bases		
Uplift to imminent sale	8	13
Discounted cash flow	158	124
Other movements on unquoted investments	(1)	5
Quoted portfolio	43	(7)
<b>Total</b>	<b>1,274</b>	<b>690</b>

<sup>1</sup> Further information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 158 and 159

Euro-Diesel designs and assembles standby power supply systems for data centres and other customers for whom power security is critical. The business performed well in 2016 and the order book for 2017 is promising.

Macro-economic developments are impacting a small number of our investments, especially those exposed to capital expenditure in the oil and commodities sector (Dynatect) or weaker consumer sentiment and decelerating tourist flows which have reduced spending on the high street in Europe (Christ).

Overall, the majority of the portfolio (93% of assets valued on an earnings basis, as well as Scandlines and Basic-Fit) grew their earnings in the year (2016: 84%). One investment was valued using forecast earnings at 31 March 2017 (31 March 2016: two), representing 2% of the portfolio by value (31 March 2016: 3%). Chart 1 shows the earnings growth of our top 20 assets.

Overall, net debt across the portfolio increased to 3.1x EBITDA (31 March 2016: 2.9x) principally due to the refinancing of Action. Chart 2 shows the ratio of net debt to EBITDA by portfolio value at 31 March 2017.

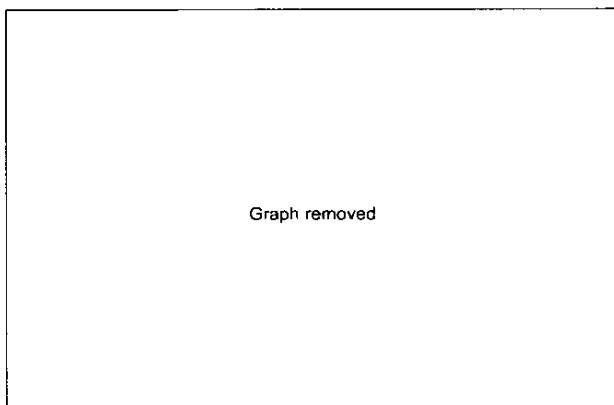
### Multiple movements

Due to its consistent financial and operational outperformance, we increased the post discount run-rate multiple used to value Action from 14.0x at 31 March 2016 to 16.0x post discount at 31 March 2017. As at 31 March 2017, a 1.0x movement of 3i's investment would increase or decrease the valuation of 3i's investment by £135 million. Excluding Action, the weighted average EBITDA multiple declined to 10.6x before liquidity discount (2016: 10.8x) and was 9.9x after liquidity discount (2016: 10.1x). The decline in multiple is principally due to Basic-Fit, which listed in June; it was previously valued using a multiple materially higher than the portfolio average at 31 March 2016, and is now held on a quoted basis.

When setting multiples, we consider factors such as exit plans, relative performance and investment size. As a result of market volatility in the year, we continued our practice of adjusting multiples down, relative to their comparable set, in 14 out of the 22 companies (2016: 17 out of 29) valued on an earnings basis. The pre-discount multiples used to value the portfolio ranged between 5.0x and 16.8x (2016: 6.5x and 14.7x) and the post-discount multiples ranged between 4.8x and 16.0x (2016: 5.5x and 14.0x).

The combined effect of changes in multiples across the portfolio resulted in an increase in value of £239 million in the period (2016: £95 million increase).

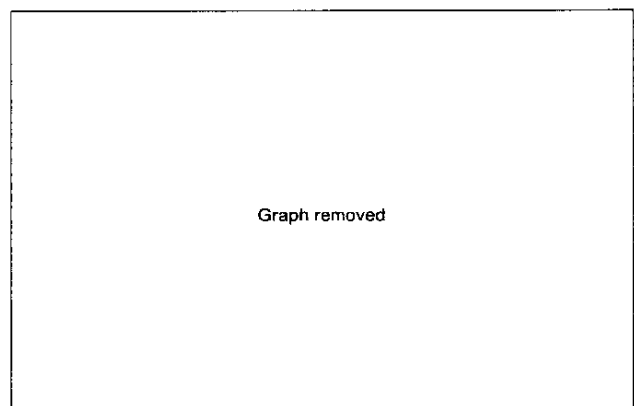
**Chart 1: Portfolio earnings growth of the top 20 Private Equity<sup>1</sup> investments £m**



3i carrying value at 31 March 2017

<sup>1</sup> Includes top 20 Private Equity companies by value. This represents 91% of the Private Equity portfolio by value (31 March 2016: 86%)

**Chart 2: Ratio of net debt to EBITDA<sup>1</sup> £m**



3i carrying value at 31 March 2017

<sup>1</sup> For 99.9% of the Private Equity portfolio by value (31 March 2016: 99.2%)

# Business review

continued

## Uplift to imminent sale

We announced the sale of MKM in March 2017 and recognised an increase in value of £8 million. The sale is expected to complete by the end of June 2017.

In October 2016, we announced an implementation agreement to sell ACR to two Shenzhen government sponsored investment companies, subject to regulatory and other approvals. This approval process remains ongoing and, as a result, we did not value ACR on an imminent sales basis as at 31 March 2017. Its valuation movement in FY2017 is classified within the other movements on unquoted investments category.

## Discounted cash flow ("DCF")

As at 31 March 2017, the largest Private Equity investment valued on a DCF basis was Scandlines, valued at £538 million (31 March 2016: £369 million). It generated value growth of £155 million due to continued strong trading, the expectation of further delays in the opening date of a competing tunnel on its key route between Rødby and Puttgarden, as well as a modest reduction in its weighted average cost of capital.

## Quoted portfolio

The Private Equity quoted portfolio generated an unrealised value gain of £43 million (2016: £7 million loss) in the year.

Basic-Fit's strong FY2016 financial and operational performance, resulting in the business ending the year with 419 clubs and 1.2 million members, was reflected in the share price increasing from its June 2016 IPO price of €15.00 to close at €16.27 and an unrealised value gain of £51 million in the year. 3i's remaining stake was valued at £184 million at 31 March 2017.

## Assets under management

The value of Eurofund V ("EFV"), covering buyout investments made in the period between 2007 and 2012, continued to grow and at 31 March 2017 the fund had a gross money multiple of 2.2x (31 March 2016: 1.7x).

Investments made since the change in investment strategy in 2012, including the further investment in Scandlines, are making good progress with a sterling multiple of 1.7x at 31 March 2017 (31 March 2016: 1.5x).

The value of 3i's Proprietary Capital increased to £4.8 billion in the year (2016: £3.7 billion). The value of the portfolio including third-party capital increased to €8.1 billion (2016: €7.0 billion).

**Table 4: Quoted portfolio movement for the year to 31 March 2017**

Investment	IPO date	Opening value at 1 April 2016 £m	Disposals at opening book value £m	Unrealised value movement £m	Other movements <sup>1</sup> £m	Closing value at 31 March 2017 £m
Quintiles	May 2013	92	(92)	-	-	-
Dphone	July 2014	25	-	(5)	1	21
Eltel	February 2015	20	(20)	-	-	-
Refresco Gerber	March 2015	44	(13)	(3)	4	32
UFO Moviez	May 2015	12	(12)	-	-	-
Basic-Fit	June 2016	208	(82)	51	7	184
		401	(219)	43	12	237

<sup>1</sup> Other movements include foreign exchange

# Infrastructure

Selected 3i Infrastructure plc investments

Overview

Private Equity

Infrastructure

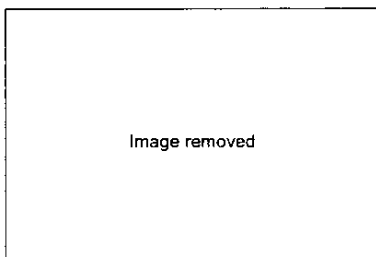
Financial review, Risk and  
Corporate responsibility

Corporate  
Governance

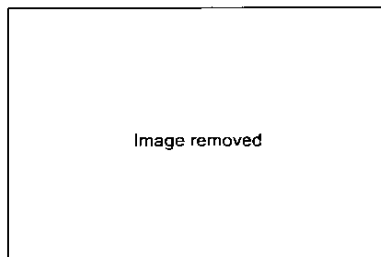
Audited financial  
statements

Portfolio and  
other information

## Oystercatcher

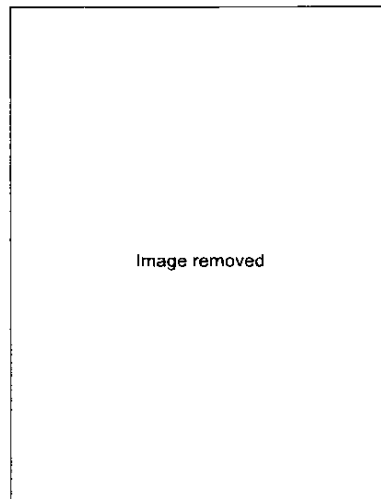


## TCR



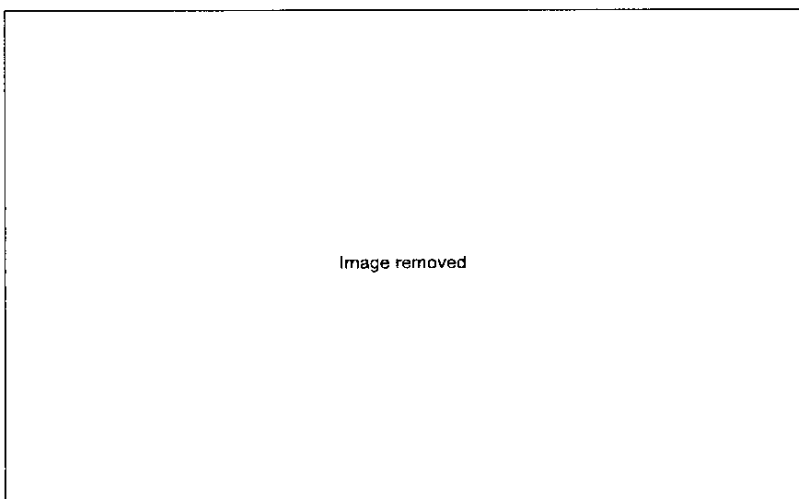
26

## Wireless Infrastructure Group

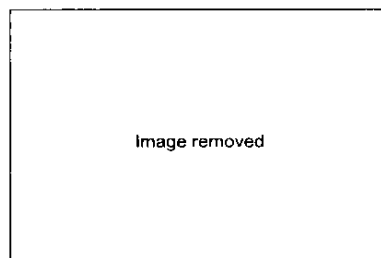


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## Anglian Water Group



## Elenia



Infrastructure

# Selected 3i Infrastructure plc investments in the year

**TCR**

**£151m**

invested

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Headquartered in Brussels, Belgium, TCR is Europe's largest independent asset manager of airport ground support equipment ("GSE") and operates at over 100 airports across 12 countries. The GSE that TCR provides is critical infrastructure, without which some of Europe's busiest airports could not operate.

TCR fits with 3iN's strategy of investing in companies with good asset backing, strong market positions and barriers to entry, yet with operational levers to achieve attractive returns for 3iN's shareholders through active asset management.

For more information, visit  
[www.tcr-group.com](http://www.tcr-group.com)

Image removed

## Wireless Infrastructure Group

**£75m**  
invested

Wireless Infrastructure Group ("WIG") is an independent communications infrastructure provider headquartered in Bellshill, Scotland. The business builds and operates communication towers in rural and suburban areas, together with fibre-based networks to improve mobile coverage in large buildings and on city streets. WIG is independent of any network operator and invests in infrastructure that can be accessed by all networks.

3iN acquired a 36% economic interest in WIG, investing £75 million. WIG diversifies 3iN's portfolio and provides exposure to a growing communications infrastructure business. With its scalable platform and track record of building new infrastructure and making accretive acquisitions, WIG is well placed to target further growth in the UK and across Europe.

For more information, visit [www.wirelessinfrastructure.co.uk](http://www.wirelessinfrastructure.co.uk)

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## Business review

Infrastructure contributed a gross investment return of £87 million, or 17% on the opening portfolio (2016: £47 million, 8%). This was driven by 3iN's strong share price appreciation together with good levels of dividend and fee income from both 3iN and the other funds managed by the team.

In May 2016, 3iN announced a 7.55 pence per share annual dividend target for FY2017, as well as a £350 million capital raise. Both initiatives were well received and the final amount raised in the placing, gross of fees, was £385 million. 3i invested £131 million in this placing to maintain its 34% stake in 3iN. The shares were offered at 165 pence per share and closed at 189 pence on 31 March 2017, generating a total shareholder return for investors in that placing of 17%.

We made excellent progress in sourcing assets in 3iN's target markets of economic infrastructure and greenfield projects. In total we advised 3iN on £479 million of new investment in the year (2016: £193 million). 3iN completed six new investments: Wireless Infrastructure Group, TCR, Valorem, the Hart van Zuid greenfield PPP project, the A27/A1 greenfield PPP project and Infinis. As a result, all of the proceeds from the capital raise were deployed.

Overall, the 3iN portfolio continues to perform well and the company generated a total return of 9% in the year (2016: 14%). Under the terms of the investment advisory agreement, 3iN paid an advisory fee of £25 million to 3i (2016: £16 million), with the increase attributable to new investment activity, and a NAV-based performance fee of £4 million (2016: £20 million). Of this, £3 million (2016: £15 million) was accrued as payable to the team.

### Investment portfolio performance

The Group's infrastructure portfolio consists primarily of its 34% stake in 3iN.

3iN's share price performed strongly in the year as the yield offered by 3iN continues to be attractive to investors in the current low interest rate environment. 3iN's TSR for the year was 16% (2016: 13%) and 3iN generated £23 million (2016: £21 million) of dividend income for 3i. 3i also has an investment in the 3i India Infrastructure Fund, where the team continues to focus on managing this portfolio to maximise value for fund investors.

In total, the infrastructure portfolio generated unrealised value growth of £59 million (2016: £22 million).

**Table 5: Unrealised profits/(losses) on the revaluation of Infrastructure investments<sup>1</sup> in the year to 31 March**

	2017 £m	2016 £m
Quoted	63	31
Discounted cash flow	(4)	(9)
<b>Total</b>	<b>59</b>	<b>22</b>

<sup>1</sup> More information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 158 and 159

### Assets under management

Infrastructure AUM increased to £2.9 billion (31 March 2016: £2.3 billion) principally due to 3iN's fundraising and strong portfolio performance.

We are focused on managing the 3iN portfolio actively and embedding the new assets to ensure that they meet or exceed the investment plan. While we continue to see a good flow of new investment opportunities, there remains strong demand for infrastructure assets as capital flows towards more defensive sectors. In this environment, we remain disciplined and focused on maintaining a balanced and attractive portfolio in 3iN.

We remain committed to the importance of our 3iN mandate and sourcing and managing its attractive portfolio of assets. To broaden 3i's infrastructure strategy, and generate increased cash income for the Group in the medium term, we have also announced several complementary new initiatives. In each case, we are adding resources to ensure that the new initiatives are successful, and that our focus on the 3iN mandate is not compromised. We launched a new £700 million fund to purchase assets from the EISER Global Infrastructure Fund. In addition, we announced a new fund, the 3i European Operational Projects Fund SCSP. 3i will provide seed capital of c.£35 million to each of these funds. Finally, we announced the launch of a US Infrastructure platform in March 2017.

# Financial review, Risk and Corporate responsibility

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# Financial review

## Strong financial performance

FY2017 was another year of strong financial performance. It was also the year in which we sold our Debt Management business to Investcorp. The sale of Debt Management completed on 3 March 2017 and the business we sold to Investcorp is classified as discontinued operations throughout this report. We retained the CLO investments not required for regulatory or contractual purposes, as well as investments in the Global Income Fund and Senior Loan Fund. These investments are classified within Other in the Financial review and our segmental reporting.

We generated an excellent gross investment return from Private Equity, Infrastructure and the retained Debt Management investments of £1,755 million (2016: £1,051 million) and an operating profit before carried interest of £1,675 million (2016: £911 million). This was driven by the strong unrealised value growth from our investments, together with the positive impact of foreign exchange translation.

Total return was £1,592 million, or a profit on opening shareholders' funds of 36% (2016: £824 million or 22%) and, as a result, the diluted NAV per share at 31 March 2017 increased by 30% to 604 pence (31 March 2016: 463 pence).

**Table 6: Total return** for the year to 31 March

	12 months to 31 March 2017	12 months to 31 March 2016 <sup>1</sup>
	£m	£m
Investment basis		
Realised profits over value on the disposal of investments	38	72
Unrealised profits on the revaluation of investments	1,342	690
Portfolio income		
Dividends	50	49
Interest income from investment portfolio	50	59
Fees receivable	6	7
Foreign exchange on investments	269	174
<b>Gross investment return</b>	<b>1,755</b>	<b>1,051</b>
Fees receivable from external funds	46	41
Operating expenses	(117)	(107)
Interest received	2	4
Interest paid	(49)	(47)
Exchange movements	28	(31)
Other income	10	–
<b>Operating profit before carried interest</b>	<b>1,675</b>	<b>911</b>
Carried interest		
Carried interest and performance fees receivable	279	78
Carried interest and performance fees payable	(434)	(186)
<b>Operating profit from continuing operations</b>	<b>1,520</b>	<b>803</b>
Income taxes	3	–
Re-measurements of defined benefit plans	(22)	(6)
<b>Total comprehensive income: continuing operations</b>		
<b>("Total return from continued operations")</b>	<b>1,501</b>	<b>797</b>
Total comprehensive income from discontinued operations, net of tax		
("Total return from discontinued operations")	91	27
<b>Total comprehensive income ("Total return")</b>	<b>1,592</b>	<b>824</b>
<b>Total return on opening shareholders' funds</b>	<b>36%</b>	<b>22%</b>

<sup>1</sup> Comparatives have been re-presented to reflect the classification of the Group's Debt Management business, sold to Investcorp, as discontinued operations.

## Alternative performance measures ("APMs")

In October 2015, the European Securities and Markets Authority ("ESMA") published guidelines about the use of APMs. These are financial measures such as KPIs that are not defined under IFRS. In our Strategic report we describe our financial performance under our Investment basis, which is itself an APM, and use a number of other measures which, on account of being derived from the Investment basis, are also APMs. Further information about our use of APMs, including the applicable reconciliations to the IFRS equivalent where appropriate, is provided in page 43, and should be read alongside our Investment basis to IFRS reconciliation. Our APMs are gross investment return as a percentage of the opening investment portfolio value, cash realisations, cash investment, operating cash profit, net cash/(debt) and gearing.

## Realised profits

Supportive market conditions, together with the co-incidental maturity of our exit pipeline, resulted in realised proceeds of £1,005 million (2016: £796 million). Profits on disposal of £38 million (2016: £72 million) were net of the £49 million realised loss on Agent Provocateur which was sold after it was entered into administration in March 2017. This, combined with the fact that the successful exits of Mayborn and Amor were valued on an imminent sales basis at 31 March 2016, meant realisations (excluding refinancings) were achieved at an uplift over opening value of 5% (2016: 13%) in the year.

## Unrealised value movements

The unrealised value movement of £1,342 million (2016: £690 million) was due to strong earnings growth in a number of our Private Equity assets. Action contributed £911 million to value growth and we also saw improved performance from Private Equity investments in our 2013–16 vintage, such as Scandlines (a further investment in 2013), ATESTEO, Basic-Fit and Euro-Diesel.

**Table 7: Unrealised profits on revaluation of investments (continuing operations)** for the year to 31 March

	2017 £m	2016 £m
Private Equity	1,274	690
Infrastructure	59	22
Other (residual Debt Management)	9	(22)
<b>Total</b>	<b>1,342</b>	<b>690</b>

Our residual Debt Management positions recovered some of the mark-to-market losses seen in the first quarter of calendar year 2016 and generated an unrealised value gain of £9 million (2016: £22 million loss) in the year.

Further information on the Private Equity and Infrastructure valuations is included in their respective Business reviews.

## Portfolio income

The portfolio generated income of £106 million during the year (2016: £115 million). The increase in dividends from 3iN (up from £21 million to £23 million) was offset by a reduction in dividends from Private Equity, as income in FY2016 included a significant dividend from Scandlines as well as dividends from older assets which have been sold. Interest income on loans in Private Equity reduced to £50 million (2016: £59 million) due to the timing of asset disposals or IPOs relative to the completion of our three new investments. Portfolio fees were broadly stable as the increase in deal fees on new investments completed in the year was offset by abort costs incurred on prospective transactions.

## Fees receivable from external funds

Fees increased to £46 million (2016: £41 million) due to increased fee income from 3iN. 3i, as investment adviser, receives a fee for sourcing and completing new investments for 3iN; 3iN completed six new investments in FY2017 and invested £479 million (2016: four investments and £193 million).

## Operating expenses

Operating expenses were £117 million (2016: £107 million), principally due to a £4 million increase in the Infrastructure team's share of the 3iN fee income referred to above. The share-based payment expense also increased by £3 million due to the strong performance of 3i Group's share price.

We continue to invest in the front office capability in Private Equity and Infrastructure but remain disciplined on cost. We expect that expenses in FY2018 will be broadly double the second half costs of £63 million.

## Operating cash profit

Operating cash profit is a Group KPI; by covering the operating costs of running our business with income, we reduce the dilution of shareholder returns. Since its introduction in 2012, this measure has been defined as cash portfolio and fee income less accrued operating expenses, the latter being used as it was not considered to be materially different from cash operating expenses. The definition has been updated to be cash portfolio income and fee income less cash expenses. The principal non-cash expense now excluded from the measure is share-based payments; these have become significantly more material since the measure was originally implemented, as more compensation is delivered in the form of shares, and as the share price has increased.

**Table 8: Operating cash profit** for the year to 31 March

	2017 £m	2016 <sup>2</sup> £m
Third-party capital fees	47	40
Cash portfolio fees	12	8
Cash portfolio dividends and interest	62	60
<b>Cash income from continuing operations</b>	<b>121</b>	<b>108</b>
Operating expenses <sup>1</sup> from continuing operations	(116)	(117)
<b>Operating cash profit/(loss): continuing operations</b>	<b>5</b>	<b>(9)</b>
Operating cash profit: discontinued operations	28	46
<b>Operating cash profit</b>	<b>33</b>	<b>37</b>

1 Operating expenses are now calculated on a cash basis and the 2016 comparative has been re-presented

2 Comparatives have been re-presented to reflect the classification of the Group's Debt Management business, sold to Investcorp, as discontinued operations

Excluding the Debt Management business sold to Investcorp, 3i made an operating cash profit of £5 million in the year (2016: £9 million loss). Cash income increased to £121 million (2016: £108 million) principally due to the increase in the third-party capital fees in Infrastructure to £37 million (2016: £29 million).

The Debt Management business was a significant contributor to the Group's operating cash profit. Including the contribution of the Debt Management business, the Group made an operating cash profit of £33 million in the year (2016: £37 million).

# Financial review

continued

## Net interest payable

Gross interest payable was £49 million (2016: £47 million), of which £15 million related to interest charges on the €331 million bond which was repaid in March 2017. The undrawn revolving credit facility was extended by one year to September 2021 at no additional cost, following an agreement with all but one of the participating banks. The total amount of the facility is £329 million (31 March 2016: £350 million).

Interest receivable on cash balances was £2 million (2016: £4 million).

## Carried interest and performance fees

We receive carried interest from third-party funds and pay a portion to participants in our carry plans. We also pay carried interest to participants on our proprietary capital invested. The accounting recognition of carried interest is driven by the valuation of the underlying investment portfolio and is accounted for by assuming that all investments are realised at the balance sheet value.

Our carried interest plans pay cash to participants when the underlying investments are realised, for example through a disposal or a refinancing event, but only when a performance hurdle has been met. Due to the length of time between investment and realisation, the schemes are usually active for a number of years and their participants are both current and previous employees of 3i.

We generated a very strong gross investment return of £1,624 million in Private Equity (2016: £1,011 million) and this material valuation uplift has resulted in significant increases in our carried interest balances in FY2017. The consequence of this year's valuation increase is that our largest Private Equity fund, EFV, went through its performance hurdle and consequently we recognised significant carried interest receivable. A share of this receivable is accrued as carried interest payable to the associated plan participants. The strong run of realisations from investments made between 2010 and 2012 that have completed over the last few years meant that we went through the cash hurdle on the Group's associated proprietary capital plan (the so-called Buyouts 2010–12 carried interest scheme) and began paying carried interest to its participants for the first time this year.

**Table 9: Carried interest and performance fees (continuing operations) for the year to 31 March**

Statement of comprehensive income	2017 £m	2016 £m
<b>Carried interest and performance fees receivable</b>		
Private Equity	275	58
Infrastructure	4	20
<b>Total</b>	<b>279</b>	<b>78</b>
<b>Carried interest and performance fees payable</b>		
Private Equity	(431)	(171)
Infrastructure	(3)	(15)
<b>Total</b>	<b>(434)</b>	<b>(186)</b>
<b>Net carried interest payable</b>	<b>(155)</b>	<b>(108)</b>

We typically accrue carried interest payable on 3i's investment portfolio at between 10% and 15% of gross investment return. The majority of assets by value are now held in schemes that would have met their performance hurdles, assuming that the portfolio was realised at the 31 March 2017 valuation.

We accrued carried interest payable of £431 million (2016: £171 million) for Private Equity, of which £202 million relates to the carry plan participant's share of carried interest receivable from EFV (2016: £48 million). Carried interest payable accrued on 3i's investment portfolio was £229 million (2016: £123 million). £159 million (31 March 2016: £71 million) of this £229 million balance relates to the carry payable on the Buyouts 2010–12 plan, which includes Action.

Carried interest is only paid to participants when the hurdles are passed in cash terms and then only when the cash proceeds are actually received following a realisation or refinancing event. During the year, £127 million of cash was paid out to the participants in the Private Equity plans (2016: £9 million). Of this £98 million related to the carry payable on the Buyouts 2010–12 scheme which went through its cash hurdle in the year.

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high watermark. The continued good performance of the assets held by 3iN resulted in the recognition of £4 million (2016: £20 million) of performance fees receivable. Carried interest of £3 million was accrued as payable to the Infrastructure team.

Overall, the effect of the income statement charge, the cash movement, as well as the currency translation meant that the balance sheet carried interest and performance fees payable increased to £685 million (31 March 2016: £404 million) and the receivable increased to £366 million (31 March 2016: £122 million).

**Table 10: Carried interest and performance fees for the year to 31 March**

Statement of financial position	2017 £m	2016 £m
<b>Carried interest and performance fees receivable</b>		
Private Equity	359	92
Infrastructure	4	20
Other	3	10
<b>Total</b>	<b>366</b>	<b>122</b>
<b>Carried interest and performance fees payable</b>		
Private Equity	(650)	(356)
Infrastructure	(35)	(43)
Other	-	(5)
<b>Total</b>	<b>(685)</b>	<b>(404)</b>

## Net foreign exchange movements

At 31 March 2017, 71% of the Group's net assets were denominated in euros or US dollars. Following the result of the UK's referendum on its membership of the EU and the subsequent weakening of sterling against the euro and the US dollar, the Group recorded a total net foreign exchange gain of £297 million (2016: £143 million) in the year.

The Group is a long-term investor and does not hedge its foreign currency denominated portfolio. Where possible, flows from currency realisations are matched with currency investments. Short-term derivative contracts are used occasionally and typically to hedge investments and realisations between signing and completion.

The net foreign exchange gain also reflects the translation of non-portfolio net assets, including non-sterling cash held at the balance sheet date.

**Table 11: Net assets and sensitivity by currency at 31 March 2017**

	FX rate	£m	%	1% sensitivity £m
Sterling	n/a	1,420	24%	n/a
Euro	1.1701	3,373	58%	34
US dollar	1.2516	751	13%	8
Danish krona	8.7015	147	3%	1
Other	n/a	145	2%	n/a

## Pension

On an IAS 19 basis the pension scheme remains in a surplus. There was a re-measurement loss on the Group's pension scheme of £22 million during the year (2016: £6 million loss). The liability of the Group's UK defined benefit pension scheme increased in the year following a decrease in the discount rate. This was partially offset by an increase in the underlying asset valuations.

During the year, the Trustees of the 3i Group Pension Plan implemented a buy-in transaction, which is a bulk annuity purchase that partially reduces member longevity risk while improving the investment returns of the pension scheme. The transaction is expected to improve the actuarial funding position of the plan, which in turn influences the future cash contributions by 3i. The transaction resulted in an accounting charge in accordance with IAS 19 of £14 million.

The triennial valuation of the scheme's funding position at 30 June 2016 is underway and will be completed no later than 30 September 2017.

## Tax

The Group's parent company has operated in the UK as an approved investment trust company since its listing on the London Stock Exchange in 1994. An approved investment trust is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK. Approved investment trust companies are particularly suited for investment vehicles as their tax status allows them to ensure that their shareholders do not suffer double taxation of their investment returns. The Group recognised a tax credit in the period of £3 million (2016: nil).

## Sale of Debt Management

On 3 March 2017, we completed the sale of our Debt Management business to Investcorp for total proceeds of £270 million. The sale comprised the entire Debt Management fund management business, which had teams based in London and New York, and the CLO investments required by the buyer for regulatory and contractual purposes. We retained the CLO investments in excess of those requirements. During the period between signing and completion we continued to support CLO warehouses in the US and Europe, and the outstanding balances of £33 million were repaid in full on completion. In addition, we retained our investments in the Global Income Fund and the Senior Loan Fund.

**Table 12: Debt Management investments as at 31 March**

Valuation	2017 £m	Net movement <sup>1</sup> £m	2016 £m
CLO equity sold	–	(119)	119
CLO warehouses repaid	1	(16)	17
CLO equity retained	50	16	34
Global Income Fund	79	27	52
Senior Loan Fund	8	1	7
<b>Total</b>	<b>138</b>	<b>(91)</b>	<b>229</b>

<sup>1</sup> Net movement is inclusive of investments, currency translation and mark-to-market adjustments

The transaction was signed on 25 October 2016, and the economic benefit of the fund management business and relevant CLO equity interest transferred with effect from 1 October 2016. The total return from discontinued operations of £91 million (2016: £27 million) includes the economics of the business up to 30 September 2016, compensation for the period to closing and the profit on disposal.

The £270 million of proceeds was split between £232 million for the sale of the subsidiaries, proceeds of £22 million from the sale of directly held investments in CLO equity and warehouses and £16 million for the settlement of an inter-company loan.

# Financial review

continued

## Balance sheet

### Net cash and liquidity

**Table 13: Net cash** as at 31 March

	2017 £m	2016 £m
Cash and cash equivalents	954	962
Deposits	40	40
Loans and borrowings	(575)	(837)
<b>Net cash</b>	<b>419</b>	<b>165</b>

Net cash is calculated as cash and cash equivalents and deposits less total loans and borrowings. As at 31 March 2017, net cash was £419 million (2016: £165 million). The increase reflects the significant level of realisations which, including the proceeds of the sale of Debt Management, were £1,275 million (2016: £796 million). The balance will reduce by c.£272 million (c.£320 million) when the signed investments in Hans Anders and Lampenwelt complete (expected by the end of June 2017). Subject to shareholder approval, the final dividend of £178 million will also be paid in July 2017.

### Liquidity

Liquidity remained strong at £1,323 million (31 March 2016: £1,352 million) after the repayment of our €331 million bond in March 2017. Liquidity comprised cash and deposits of £994 million (31 March 2016: £1,002 million) and undrawn facilities of £329 million (31 March 2016: £350 million).

### Gross debt and gearing

**Table 14: Gross debt** as at 31 March

	2017 £m	2016 £m
€331 million notes at 5.625% (2017)	-	262
£200 million notes at 6.875% (2023)	200	200
£375 million notes at 5.750% (2032)	375	375
<b>Loans and borrowings</b>	<b>575</b>	<b>837</b>
<b>Gearing</b>	<b>nil</b>	<b>nil</b>

On 17 March 2017, the €310 million outstanding balance of the €331 million bond was repaid out of cash resources. This reduced the total gross debt outstanding to £575 million as at 31 March 2017 (31 March 2016: £837 million). As a result, the annual interest cost on the remaining bonds will reduce to £35 million per annum in FY2018 (2017: £49 million).

### Gearing

Gearing is defined as net debt as a percentage of the Group's net assets. As the Group was in a net cash position at 31 March 2017 and 2016 under both the Investment basis and IFRS, gearing was nil.

## Key accounting judgements and estimates

In preparing these accounts, the key accounting judgement relates to the carrying value of our investment assets which are stated at fair value.

Given the importance of this area the Board has a separate Valuations Committee to review the valuation policy, process and application to individual investments. However, asset valuations for unquoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2017, 84% by value of the investment assets were unquoted (31 March 2016: 85%).

The valuation of the Proprietary Capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2017 and the underlying investment management agreements.

## Accounting for investment entities

An assessment is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment of investment entities is accurate. The introduction of IFRS 10 resulted in a number of intermediate holding companies being presented at fair value, which has led to reduced transparency of the underlying investment performance. As a result, the Group continues to present a non-GAAP Investment basis set of financial statements to ensure that the commentary in the Strategic report remains fair, balanced and understandable. The reconciliation of the Investment basis to IFRS is shown on pages 39 to 42.

# Investment basis

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## Consolidated statement of comprehensive income

	Total 2017 £m	Total 2016 £m
Realised profits over value on the disposal of investments	38	72
Unrealised profits on the revaluation of investments	1,342	690
Portfolio income		
Dividends	50	49
Interest income from investment portfolio	50	59
Fees receivable	6	7
Foreign exchange gain on investments	269	174
<b>Gross investment return</b>	<b>1,755</b>	<b>1,051</b>
Fees receivable from external funds	46	41
Operating expenses	(117)	(107)
Interest receivable	2	4
Interest payable	(49)	(47)
Foreign exchange gain/(loss)	28	(31)
Other income	10	–
<b>Operating profit before carried interest</b>	<b>1,675</b>	<b>911</b>
Carried interest		
Carried interest and performance fees receivable	279	78
Carried interest and performance fees payable	(434)	(186)
<b>Operating profit from continuing operations</b>	<b>1,520</b>	<b>803</b>
Income taxes	3	–
<b>Profit for the year from continuing operations</b>	<b>1,523</b>	<b>803</b>
Profit for the year from discontinued operations, net of tax	91	27
<b>Profit for the year</b>	<b>1,614</b>	<b>830</b>
Other comprehensive income		
Re-measurements of defined benefit plans	(22)	(6)
<b>Total comprehensive income for the year ("Total return")</b>	<b>1,592</b>	<b>824</b>

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 31.

# Investment basis

continued

## Consolidated statement of financial position

	Total 2017 £m	Total 2016 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Investments		
Quoted investments	893	658
Unquoted investments	4,782	3,839
<b>Investment portfolio</b>	<b>5,675</b>	<b>4,497</b>
Carried interest and performance fees receivable	359	94
Other non-current assets	106	37
Intangible assets	–	12
Retirement benefit surplus	121	132
Property, plant and equipment	5	5
Deferred income taxes	–	3
<b>Total non-current assets</b>	<b>6,266</b>	<b>4,780</b>
<b>Current assets</b>		
Carried interest and performance fees receivable	7	28
Other current assets	10	53
Current income tax receivable	2	–
Deposits	40	40
Cash and cash equivalents	954	962
<b>Total current assets</b>	<b>1,013</b>	<b>1,083</b>
<b>Total assets</b>	<b>7,279</b>	<b>5,863</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Trade and other payables	(29)	(27)
Carried interest and performance fees payable	(644)	(290)
Loans and borrowings	(575)	(575)
Retirement benefit deficit	(22)	(20)
Deferred income taxes	(1)	(2)
Provisions	(2)	(1)
<b>Total non-current liabilities</b>	<b>(1,273)</b>	<b>(915)</b>
<b>Current liabilities</b>		
Trade and other payables	(125)	(107)
Carried interest and performance fees payable	(41)	(114)
Acquisition related earn-out charges payable	–	(1)
Loans and borrowings	–	(262)
Current income taxes	–	(2)
Provisions	(4)	(7)
<b>Total current liabilities</b>	<b>(170)</b>	<b>(493)</b>
<b>Total liabilities</b>	<b>(1,443)</b>	<b>(1,408)</b>
<b>Net assets</b>	<b>5,836</b>	<b>4,455</b>
<b>Equity</b>		
Issued capital	719	719
Share premium	785	784
Other reserves	4,370	3,006
Own shares	(38)	(54)
<b>Total equity</b>	<b>5,836</b>	<b>4,455</b>

## Consolidated cash flow statement

	Total 2017 £m	Total 2016 £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(692)	(449)
Proceeds from investments	1,063	771
Net cash flow from derivatives	–	(14)
Portfolio interest received	16	15
Portfolio dividends received	66	71
Portfolio fees received	11	7
Fees received from external funds	71	78
Carried interest and performance fees received	39	52
Carried interest and performance fees paid	(131)	(15)
Carried interest held in non-current assets	(56)	–
Acquisition related earn-out charges paid	(1)	(30)
Operating expenses	(131)	(134)
Income taxes paid	(2)	–
Other cash income	2	–
<b>Net cash flow from operating activities</b>	<b>255</b>	<b>352</b>
<b>Cash flow from financing activities</b>		
Issue of shares	1	–
Dividends paid	(230)	(190)
Interest received	2	4
Interest paid	(51)	(51)
Repayment of short-term borrowings	(264)	–
Repurchase of short-term borrowings	(17)	–
Co-investment loans	1	–
<b>Net cash flow from financing activities</b>	<b>(558)</b>	<b>(237)</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	(1)	(1)
Proceeds from sale of Debt Management business	232	–
Cash held in sold subsidiaries	(4)	–
Net cash flow from deposits	–	(40)
<b>Net cash flow from investing activities</b>	<b>227</b>	<b>(41)</b>
<b>Change in cash and cash equivalents</b>	<b>(76)</b>	<b>74</b>
Cash and cash equivalents at the start of year	962	864
Effect of exchange rate fluctuations	68	24
<b>Cash and cash equivalents at the end of year</b>	<b>954</b>	<b>962</b>

# Investment basis

continued

## Background to Investment basis financial statements

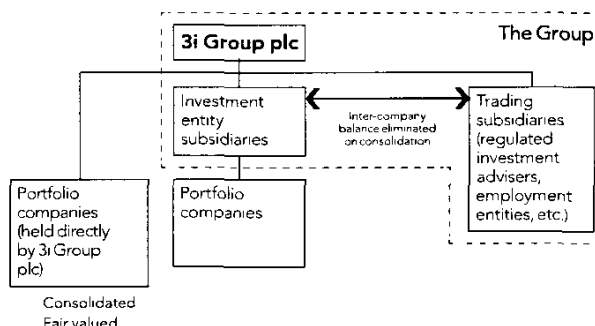
The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures (“Investment entity subsidiaries”). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice (“Trading subsidiaries”). The application of IFRS 10 requires us 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. The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

To maintain transparency in our report and aid understanding we introduced separate non-GAAP “Investment basis” Statements of comprehensive income, financial position and cash flow in our 2014 Annual report and accounts. The Investment basis is an APM and the Strategic report is prepared using the Investment basis as we believe it provides a more understandable view of our performance. Total return and net assets are equal under the Investment basis and IFRS; the Investment basis is simply a “look through” of IFRS 10 to present the underlying performance.

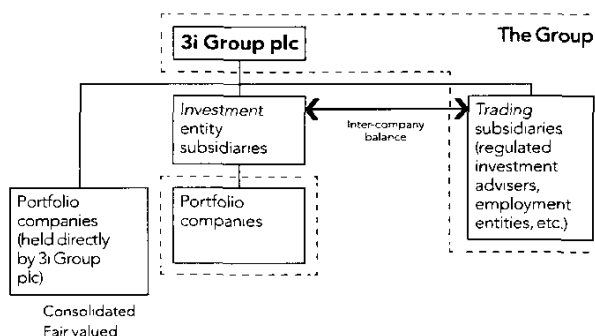
## Reconciliation of Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the Consolidated statement of comprehensive income, Consolidated statement of financial position and Consolidated cash flow statement is shown on pages 39 to 42.

### Investment basis of consolidation



### IFRS 10 basis of consolidation



# Reconciliation of Investment basis and IFRS

Overview

Private Equity

Infrastructure

Financial review, Risk and Corporate responsibility

Corporate Governance

Audited financial statements

Portfolio and other information

## Reconciliation of consolidated statement of comprehensive income

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016 <sup>b</sup> £m	IFRS adjustments 2016 <sup>a</sup> £m	IFRS basis 2016 <sup>b</sup> £m
Realised profits/(losses) over value on the disposal of investments	1, 2	38	(63)	(25)	72	(61)	11
Unrealised profits on the revaluation of investments	1, 2	1,342	(1,080)	262	690	(576)	114
Fair value movements on investment entity subsidiaries	1	–	1,041	1,041	–	591	591
Portfolio income							
Dividends	1, 2	50	(12)	38	49	(13)	36
Interest income from investment portfolio	1, 2	50	(40)	10	59	(37)	22
Fees receivable	1, 2	6	3	9	7	2	9
Foreign exchange on investments	1, 3	269	(205)	64	174	(145)	29
<b>Gross investment return</b>		<b>1,755</b>	<b>(356)</b>	<b>1,399</b>	<b>1,051</b>	<b>(239)</b>	<b>812</b>
Fees receivable from external funds	1, 4	46	–	46	41	–	41
Operating expenses	1, 4	(117)	1	(116)	(107)	2	(105)
Interest receivable		2	–	2	4	–	4
Interest payable		(49)	–	(49)	(47)	–	(47)
Exchange movements	1, 3	28	14	42	(31)	95	64
Other income		10	–	10	–	–	–
Income/(expense) from investment entity subsidiaries	1	–	18	18	–	(10)	(10)
<b>Operating profit before carried interest</b>		<b>1,675</b>	<b>(323)</b>	<b>1,352</b>	<b>911</b>	<b>(152)</b>	<b>759</b>
Carried interest							
Carried interest and performance fees receivable	1, 4	279	1	280	78	(5)	73
Carried interest and performance fees payable	1, 4	(434)	326	(108)	(186)	148	(38)
<b>Operating profit from continuing operations</b>		<b>1,520</b>	<b>4</b>	<b>1,524</b>	<b>803</b>	<b>(9)</b>	<b>794</b>
Income taxes	1, 4	3	–	3	–	(2)	(2)
<b>Profit for the year from continuing operations</b>		<b>1,523</b>	<b>4</b>	<b>1,527</b>	<b>803</b>	<b>(11)</b>	<b>792</b>
Profit for the year from discontinued operations		91	7	98	27	(2)	25
<b>Profit for the year</b>		<b>1,614</b>	<b>11</b>	<b>1,625</b>	<b>830</b>	<b>(13)</b>	<b>817</b>
Other comprehensive income							
Exchange differences on translation of foreign operations	1, 3	–	(4)	(4)	–	11	11
Re-measurements of defined benefit plans		(22)	–	(22)	(6)	–	(6)
<b>Other comprehensive (expense)/income for the year from continuing operations</b>		<b>(22)</b>	<b>(4)</b>	<b>(26)</b>	<b>(6)</b>	<b>11</b>	<b>5</b>
<b>Other comprehensive (expense)/income for the year from discontinued operations</b>		<b>–</b>	<b>(7)</b>	<b>(7)</b>	<b>–</b>	<b>2</b>	<b>2</b>
<b>Total comprehensive income for the year ("Total return")</b>		<b>1,592</b>	<b>–</b>	<b>1,592</b>	<b>824</b>	<b>–</b>	<b>824</b>

### Notes:

- Applying IFRS 10 to the Consolidated 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 years. The adjustments simply reclassify the Consolidated 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.
- Foreign exchange movements have been reclassified under the Investment basis as foreign currency asset and liability movements. Movements within the investment entity subsidiaries are included within "Fair value movements on investment entities".
- Other items also aggregated into the "Fair value movements on investment entity subsidiaries" line include fees receivable from external funds, audit fees, administration expenses, carried interest and tax.
- Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 31 to the IFRS financial statements.
- The IFRS basis is audited and the Investment basis is unaudited.

# Reconciliation of Investment basis and IFRS

continued

## Reconciliation of consolidated statement of financial position

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m
<b>Assets</b>							
<b>Non-current assets</b>							
<i>Investments</i>							
Quoted investments	1	893	(503)	390	658	(361)	297
Unquoted investments	1	4,782	(3,466)	1,316	3,839	(2,596)	1,243
Investments in investment entity subsidiaries	1, 2	–	3,483	3,483	–	2,680	2,680
<b>Investment portfolio</b>		<b>5,675</b>	<b>(486)</b>	<b>5,189</b>	<b>4,497</b>	<b>(277)</b>	<b>4,220</b>
<i>Carried interest and performance fees receivable</i>							
	1	359	(5)	354	94	(5)	89
Other non-current assets		106	(56)	50	37	–	37
Intangible assets		–	–	–	12	–	12
Retirement benefit surplus		121	–	121	132	–	132
Property, plant and equipment		5	–	5	5	–	5
Deferred income taxes		–	–	–	3	–	3
<b>Total non-current assets</b>		<b>6,266</b>	<b>(547)</b>	<b>5,719</b>	<b>4,780</b>	<b>(282)</b>	<b>4,498</b>
<b>Current assets</b>							
<i>Carried interest and performance fees receivable</i>							
		7	2	9	28	–	28
Other current assets	1	10	2	12	53	(22)	31
Current income tax receivable		2	–	2	–	–	–
Deposits		40	–	40	40	–	40
Cash and cash equivalents	1, 2	954	(23)	931	962	(5)	957
<b>Total current assets</b>		<b>1,013</b>	<b>(19)</b>	<b>994</b>	<b>1,083</b>	<b>(27)</b>	<b>1,056</b>
<b>Total assets</b>		<b>7,279</b>	<b>(566)</b>	<b>6,713</b>	<b>5,863</b>	<b>(309)</b>	<b>5,554</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Trade and other payables		(29)	5	(24)	(27)	–	(27)
Carried interest and performance fees payable	1	(644)	520	(124)	(290)	205	(85)
Loans and borrowings		(575)	–	(575)	(575)	–	(575)
Retirement benefit deficit		(22)	–	(22)	(20)	–	(20)
Deferred income taxes	1	(1)	1	–	(2)	2	–
Provisions		(2)	–	(2)	(1)	–	(1)
<b>Total non-current liabilities</b>		<b>(1,273)</b>	<b>526</b>	<b>(747)</b>	<b>(915)</b>	<b>207</b>	<b>(708)</b>
<b>Current liabilities</b>							
Trade and other payables	1	(125)	22	(103)	(107)	8	(99)
Carried interest and performance fees payable	1	(41)	18	(23)	(114)	94	(20)
Acquisition related earn-out charges payable		–	–	–	(1)	–	(1)
Loans and borrowings		–	–	–	(262)	–	(262)
Current income taxes		–	–	–	(2)	–	(2)
Provisions		(4)	–	(4)	(7)	–	(7)
<b>Total current liabilities</b>		<b>(170)</b>	<b>40</b>	<b>(130)</b>	<b>(493)</b>	<b>102</b>	<b>(391)</b>
<b>Total liabilities</b>		<b>(1,443)</b>	<b>566</b>	<b>(877)</b>	<b>(1,408)</b>	<b>309</b>	<b>(1,099)</b>
<b>Net assets</b>		<b>5,836</b>	<b>–</b>	<b>5,836</b>	<b>4,455</b>	<b>–</b>	<b>4,455</b>
<b>Equity</b>							
Issued capital		719	–	719	719	–	719
Share premium		785	–	785	784	–	784
Other reserves	3	4,370	–	4,370	3,006	–	3,006
Own shares		(38)	–	(38)	(54)	–	(54)
<b>Total equity</b>		<b>5,836</b>	<b>–</b>	<b>5,836</b>	<b>4,455</b>	<b>–</b>	<b>4,455</b>

## Notes

1 Applying IFRS 10 to the Consolidated statement of financial position aggregates the line items into the single line item: "Investment 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. The adjustment reclassifies items in the Consolidated 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, ie, quoted equity investments or unquoted equity investments.

Other items which may be aggregated are carried interest and other payables, and the Investment basis presentation again disaggregates these items.

2 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 Consolidated statement of financial position for the Group.

3 Investment basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.

4 The IFRS basis is audited and the Investment basis is unaudited.

# Reconciliation of Investment basis and IFRS

continued

## Reconciliation of consolidated cash flow statement

	Notes	Investment basis 2017 £m	IFRS adjustments 2017 £m	IFRS basis 2017 £m	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m
<b>Cash flow from operating activities</b>							
Purchase of investments	1	(692)	358	(334)	(449)	362	(87)
Proceeds from investments	1	1,063	(753)	310	771	(535)	236
Cash inflow from investment entity subsidiaries	1	-	246	246	-	206	206
Net cash flow from derivatives		-	-	-	(14)	-	(14)
Portfolio interest received	1	16	(9)	7	15	(10)	5
Portfolio dividends received	1	66	(12)	54	71	(13)	58
Portfolio fees received		11	(2)	9	7	-	7
Fees received from external funds	1	71	-	71	78	-	78
Carried interest and performance fees received		39	-	39	52	-	52
Carried interest and performance fees paid	1	(131)	104	(27)	(15)	2	(13)
Carried interest held in non-current assets		(56)	56	-	-	-	-
Acquisition related earn-out charges paid		(1)	-	(1)	(30)	-	(30)
Operating expenses	1	(131)	-	(131)	(134)	-	(134)
Income taxes paid		(2)	-	(2)	-	-	-
Other cash income		2	-	2	-	-	-
<b>Net cash flow from operating activities</b>		<b>255</b>	<b>(12)</b>	<b>243</b>	<b>352</b>	<b>12</b>	<b>364</b>
<b>Cash flow from financing activities</b>							
Issue of shares		1	-	1	-	-	-
Dividends paid		(230)	-	(230)	(190)	-	(190)
Interest received		2	-	2	4	-	4
Interest paid		(51)	-	(51)	(51)	-	(51)
Repayment of short-term borrowings		(264)	-	(264)	-	-	-
Repurchase of short-term borrowings		(17)	-	(17)	-	-	-
Co-investment loans		1	1	2	-	-	-
<b>Net cash flow from financing activities</b>		<b>(558)</b>	<b>1</b>	<b>(557)</b>	<b>(237)</b>	<b>-</b>	<b>(237)</b>
<b>Cash flow from investing activities</b>							
Purchase of property, plant and equipment	1	(1)	-	(1)	(1)	-	(1)
Proceeds from sale of Debt Management business		232	-	232	-	-	-
Cash held in sold subsidiaries		(4)	-	(4)	-	-	-
Net cash flow from deposits		-	-	-	(40)	-	(40)
<b>Net cash flow from investing activities</b>		<b>227</b>	<b>-</b>	<b>227</b>	<b>(41)</b>	<b>-</b>	<b>(41)</b>
<b>Change in cash and cash equivalents</b>	2	<b>(76)</b>	<b>(11)</b>	<b>(87)</b>	<b>74</b>	<b>12</b>	<b>86</b>
Cash and cash equivalents at the start of year	2	962	(5)	957	864	(3)	861
Effect of exchange rate fluctuations	1	68	(7)	61	24	(14)	10
<b>Cash and cash equivalents at the end of year</b>	2	<b>954</b>	<b>(23)</b>	<b>931</b>	<b>962</b>	<b>(5)</b>	<b>957</b>

## Notes

1. The Consolidated 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.

1. Herefore 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.

3. The IFRS basis is audited and the Investment basis is unaudited.

## Alternative Performance Measures ("APMs")

We assess our performance using a variety of measures that are not specifically defined under IFRS and are therefore termed APMs. The APMs that we use may not be directly comparable with those used by other companies. Our Investment basis is itself an APM.

The explanation of and rationale for the Investment basis and its reconciliation to IFRS is provided on pages 38 to 42.

The table below defines our additional APMs.

APM	Purpose	Calculation	Reconciliation to IFRS
Gross investment return as a percentage of opening portfolio value	A measure of the performance of our proprietary investment portfolio. For further information see the Group KPIs on page 14).	It is calculated as the gross investment return, as shown in the Investment basis Consolidated statement of comprehensive income, as a % of the opening portfolio value.	The equivalent balances under IFRS and the reconciliation to the Investment basis are shown on page 39 and 40 for the Reconciliation of the consolidated statement of comprehensive income and the Reconciliation of the consolidated statement of financial position respectively.
Cash realisations	Cash proceeds from our investments support our returns to shareholders, as well as our ability to invest in new opportunities. For further information see the Group KPIs on page 14	The cash received from the disposal of investments in the year as shown in the Investment basis Consolidated cash flow statement on page 37.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement on page 42.
Cash investment	Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns For further information see the Group KPIs on page 14.	The cash paid to acquire investments in the year as shown on the Investment basis Consolidated cash flow statement on page 37.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement on page 42.
Operating cash profit	By covering the cash cost of running the business with cash income, we reduce the potential dilution of capital returns.	The cash income from the portfolio (interest, dividends and fees) together with fees received from external funds less cash operating expenses as shown on the Investment basis Consolidated cash flow statement on page 37. The calculation is shown in Table 8 on page 31 of the Financial review.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated cash flow statement on page 42.
Net cash/(net debt)	A measure of the financial risk in the Group's balance sheet.	Cash and cash equivalents plus deposits less loans and borrowings as shown on the Investment basis Consolidated statement of financial position on page 36.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position on page 40.
Gearing	A measure of the financial risk in the Group's balance sheet.	Net debt (as defined above) as a % of the Group's net assets under the Investment basis. It cannot be less than zero.	The equivalent balance under IFRS and the reconciliation to the Investment basis is shown in the Reconciliation of the consolidated statement of financial position on page 40.

## Risk management

Effective risk management underpins the successful delivery of our strategy. Integrity, rigour and accountability are central to our values and culture at 3i and are embedded in our approach to risk management.

### Understanding our risk appetite and culture

As both an investor and asset manager, 3i is in the business of taking risk in order to seek to achieve its targeted returns for investors and shareholders. The Board approves the strategic objectives that determine the level and types of risk that 3i is prepared to accept. The Board reviews 3i's strategic objectives and risk appetite at least annually.

3i's risk appetite policy, which is consistent with previous years, is built on rigorous and comprehensive investment procedures and conservative capital management.

### Culture

Integrity, rigour and accountability are central to our values and culture and are embedded in our approach to risk management. Our Investment Committee, which has oversight of the investment pipeline development and approves new investments, significant portfolio changes and divestments, is integral to embedding our institutional approach across the business. It ensures consistency and compliance with 3i's financial and strategic requirements, cultural values and appropriate investment behaviours. Members of the Executive Committee have responsibility for their own business or functional areas and the Group expects individual behaviours to meet the Group's high standards of conduct. All employees share the responsibility for upholding 3i's strong control culture and supporting effective risk management. Senior managers, typically those who report to Executive Committee members, are required to confirm their individual and business area compliance annually. In addition, all staff are assessed on how they have demonstrated 3i's values as part of their annual appraisal.

The following sections explain how we control and manage the risks in our business. They outline the key risks, our assessment of their potential impact on our business in the context of the current environment and how we seek to mitigate them.

### Risk appetite

Our risk appetite is defined by our strategic objectives. We invest capital in investment opportunities that will deliver capital returns and portfolio and fund management cash income to cover our costs, and increase returns to our investors.

### Investment risk

The substantial majority of the Group's capital is invested in Private Equity. Before the Group commits to an investment, we assess the opportunity using the following criteria:

- return objective: individually assessed and subject to a minimum target of 2x money multiple over three to five years;
- geographic focus: core markets of northern Europe and North America;
- sector expertise: focus on Business Services, Consumer and Industrials; and
- vintage: invest up to £750 million per annum in four to seven new investments in companies with an enterprise value range of €100 million to €500 million at investment.

Investments made by 3iN need to be consistent with 3iN's overall return target of 8% to 10% over the medium term and generate a mix of capital and income returns. Other infrastructure investments made by the Group should be capable of delivering capital growth and fund management fees which together generate mid-teens returns.

### Capital management

3i adopts a conservative approach to managing its capital resources as follows:

- There is no appetite for structural gearing at the Group level, but short-term tactical gearing will be used.
- The Group does not hedge its currency exposure but it does match currency realisations with investments where possible and takes out short-term hedges occasionally to hedge investments and realisations between signing and completion.
- We have limited appetite for the dilution of capital returns as a result of operating and interest expenses. Both Private Equity and Infrastructure generate cash income to mitigate this risk.

3i Group's Pillar 3 document can be found at [www.3i.com](http://www.3i.com)

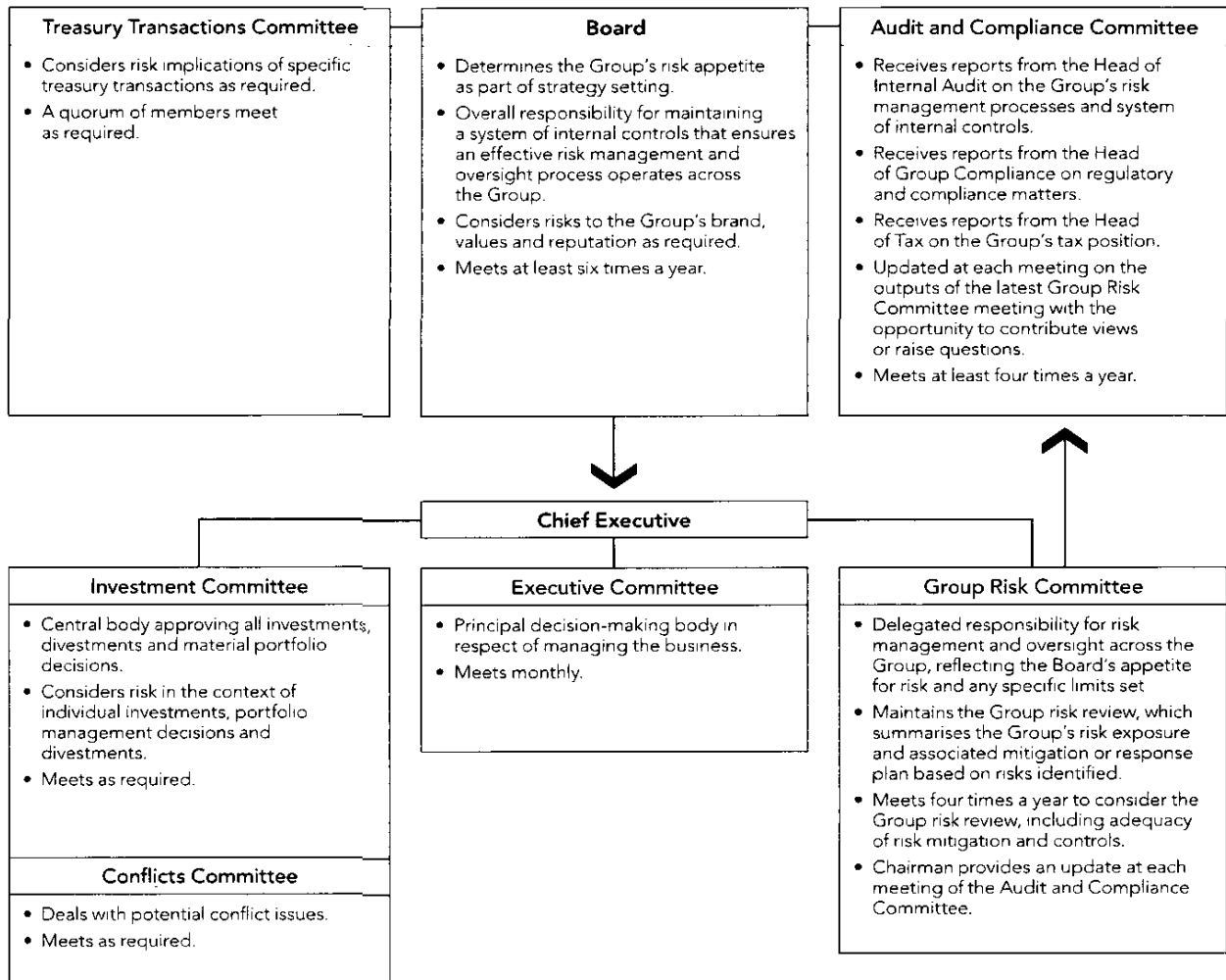
### Approach to risk governance

The Board is responsible for risk assessment, the risk management process and for the protection of the Group's reputation and brand integrity. It considers the most significant risks facing the Group and uses quantitative analyses, such as the vintage control which considers the portfolio concentration by revenue, geography and sector, and liquidity reporting, where appropriate.

Non-executive oversight is also exercised through the Audit and Compliance Committee which focuses on upholding standards of integrity, financial reporting, risk management, going concern and internal control. The Audit and Compliance Committee's activities are discussed further on pages 69 to 73.

### Risk governance structure

Overview of risk management framework and governance structure



Committees of the Board  
 Committees of the Chief Executive and chaired by the Chief Executive  
 Independent review of potential conflict issues  
 Risk reporting to Audit and Compliance Committee

# Risk management

continued

The Board has delegated the responsibility for risk oversight to the Chief Executive. He is assisted by the Group Risk Committee ("GRC") in managing this responsibility, and guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly and the Chief Executive provides quarterly updates to each Audit and Compliance Committee meeting where the Committee members contribute views and raise questions. The last risk review was completed in May 2017.

The risk framework is augmented by a separate Risk Management Function which has specific responsibilities under the FCA's *Investment Funds Sourcebook*. It meets ahead of the GRC meetings to consider the key risks impacting the Group, and any changes in the relevant period where appropriate. It also considers the separate risk reports for each Alternative Investment Fund ("AIF") managed by the Group, including areas such as portfolio composition, portfolio valuation, operational updates and team changes, which are then considered by the GRC.

Assurance over the robustness and effectiveness of the Group's overarching risk management processes and compliance with relevant policies is provided to the Audit and Compliance Committee through the independent assessment by Internal Audit and the work of Group Compliance on regulatory risks.

Assurance over the robustness of the Group's valuation policy is provided by the Valuations Committee, whose report can be found on pages 74 to 76.

In addition to the above, a number of other committees contribute to the Group's overall risk governance structure, as set out on page 45.

## Risk management framework

The Group's risk management framework is designed to support the delivery of the Group's strategic objectives.

The key principles that underpin risk management in the Group are:

- the Board and the Executive Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner;
- the Investment Committee ensures a centralised process-led approach to investment; and
- the over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

Managing the Group's Environmental, Social and Governance ("ESG") risks is central to how we do business and a key part of our risk management framework. It also forms part of our half-yearly portfolio company reviews as described in the Valuations Committee report on page 74.

In practice, the Group operates a "three lines of defence" framework for managing and identifying risk. The first line of defence against outcomes outside our risk appetite is the business function and the respective Managing Partners across Private Equity and Infrastructure, and Debt Management (until 3 March 2017).

Line management is supported by oversight and control functions such as finance, human resources and legal which constitute the second line of defence. The compliance function is also in the second line of defence; its duties include reviewing the effective operation of our processes in meeting regulatory requirements.

Internal audit provides independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes the review of risk management processes and recommendations to improve the internal control environment.

## Risk review process

The Group risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in the Group's risk profile. The review includes, but is not limited to, the following reference data:

- Group and business line KPIs;
- portfolio analysis;
- risk reports for managed AIFs; and
- quarterly Group risk log.

In addition to the above, the GRC considers the impact of any changes and developments to its risk profile, strategic delivery and reputation quarterly.

The GRC uses the above to identify its principal risks. It then evaluates the impact and likelihood of each risk, with reference to associated measures and key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

A number of focus topics are also agreed in advance of each meeting. In FY2017, the GRC covered the following:

- a preliminary analysis of the potential impact of the UK's decision to leave the EU on the Group;
- a refresh of the Group's risk review process and reporting;
- an update on ESG issues and themes, especially with respect to its portfolio companies;
- a review of the Group's stress tests to support its Internal Capital Adequacy Assessment Process ("ICAAP") and Viability Statement;
- a review of the Group's IT framework including cyber security;
- the proposed risk disclosures in the 2017 Annual report and accounts; and
- an overview of the main risk management aspects of the Group's remuneration and performance management structures.

There were no significant changes to the Group's approach to risk governance or its operation in FY2017 but we have continued to refine our framework for risk management where appropriate, including further steps to monitor our investment in Action.

Further details on 3i's approach as a responsible investor are available at [www.3i.com](http://www.3i.com).

# Principal risks and mitigations

## Aligning risk to our strategic objectives

### 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 are under active review by the GRC and Board, and are believed to have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

Although the business environment over the last 12 months has been challenging, given the political and economic uncertainty and volatile market conditions, there has been no significant change to our risk management approach or risk appetite. The sale of our Debt Management business, which completed on 3 March 2017, will allow the Group to focus on proprietary capital investment, its advisory relationship with 3iN, as well as new fund management initiatives in Infrastructure. The sale of the Debt Management business has reduced the regulatory complexity of the Group as it is no longer subject to the CRDIV regime.

The Group believes that its consistent strategy of focusing on core sectors and geographies, its institutional process-led approach to investment and strong culture will help it to navigate what it expects will be another challenging year for financial markets.

### External

The external environment remains difficult. There has been a significant amount of uncertainty in the Eurozone and the wider emerging markets economies, fuelled by a challenging global macro-economic context and ongoing geo-political tensions. There has been a significant amount of uncertainty in the global economy over the last year and in particular following the result of the US election and the UK's referendum on its membership of the EU. This has been shown by the significant volatility seen in foreign exchange and quoted markets this year. Our well-funded balance sheet and diverse portfolio of international companies position us well to address the wider implications of the EU referendum as they unfold.

Notwithstanding this, large amounts of capital are focused on Private Equity and Infrastructure which requires us to be diligent and selective in our investment approach.

The Group is subject to a range of regulatory and tax reporting requirements. In particular, as a multinational investment company, the changes to the tax landscape require careful monitoring as countries begin to consider and adopt the recommendations made by the OECD's Base Erosion and Profit Shifting ("BEPS") project. The UK has been among the first to adopt a number of the BEPS recommendations, including the tax deductibility for corporate interest expense, the tax treatment of hybrid instruments and country-by-country reporting. The Group continues to monitor these tax developments. Whilst the increased reporting is expected to lead to an increase in the Group's interaction with the tax authorities in the various jurisdictions in which it operates, it is not currently expected to lead to a significant change in the Group's overall tax profile.

Managing these requirements is a priority and regular updates are provided to the Executive Committee and the Board. To date, whilst complex to interpret and implement, they have had limited practical impact on 3i's ability to deliver its strategy.

### Investment

Investment risks are those in respect of specific asset investment decisions and the subsequent performance of an investment or exposure concentrations across business line portfolios. They could materially impact our ability to achieve our strategic objectives. To mitigate these risks, we focus on Private Equity and Infrastructure sectors and geographies where our expertise and network can drive significant outperformance.

Our overarching objectives are to source attractive investment opportunities at the right price and execute their investment plans successfully.

The investment case presented at the outset includes the expected benefit of operational improvements, growth initiatives and M&A activity that will be driven by our investment professionals together with the portfolio company's management team. It will also include a view on the likely exit strategy and timing.

The execution of this investment case is monitored through two key review processes. Our monthly portfolio monitoring reviews current performance against budget and prior year and a set of traffic light indicators and KPIs. Our semi-annual reviews focus on the longer term plan for the investment together with any strategic developments.

Finally, we recognise the need to plan and execute a successful exit at the optimum time for the portfolio company's development, taking consideration of market conditions. This risk is closely linked to the economic environment noted above. Exit plans are refreshed where appropriate in the semi-annual portfolio reviews and the divestment process is clearly defined and overseen by the Investment Committee.

The Investment Committee is involved in and approves every step of the investment and realisation process.

In addition, there are a number of risks specific to each business line as follows:

### Private Equity

Regular and robust portfolio monitoring procedures remain critical given the volatile economic backdrop and as the investment portfolio becomes more concentrated. The Private Equity partners' detailed monthly portfolio monitoring meeting is attended by the Group Chief Executive and the Group Finance Director. In addition, the Valuations Committee reviews the valuation assumptions of our more material assets quarterly. Individual portfolio company failures could have adverse reputational consequences for the Group, even though the value impact may not be material. We review our internal processes and investment decisions in light of actual outcomes on an ongoing basis.

### Infrastructure

Infrastructure remains focused on investing selectively within its target sectors and developing both organic and inorganic growth opportunities. The Infrastructure business was very active in FY2016 and FY2017, where 3iN saw particularly strong levels of investment, and a £385 million capital raise, in FY2017. In addition, the team has launched three initiatives in Europe and North America to broaden its coverage of the infrastructure sector in areas of the market complementary to the core investment focus of 3iN, which remains the primary investment vehicle for the business line. To mitigate risks associated with managing this strong growth in 3iN and the wider infrastructure business, the team has invested in its origination and asset management capability through new hires and internal promotions to Partner and Director level in Europe and an Infrastructure team in the US, and has enhanced its finance, strategy and investor relations teams. Further hires will be made in FY2018. We also hold monthly portfolio monitoring meetings and bi-annual investment reviews.

### Operational

Following an external review of 3i's cyber security capabilities and controls, the Group implemented a number of new protection and detection tools. This, together with a major upgrade to our IT infrastructure, has delivered a more robust cyber security framework.

The Board also received regular updates on ESG risks and whether our investors' skill sets and business development capabilities could support the Group's strategic delivery. Detailed resource plans are in place at the business line level and the Board conducts an annual review of the Group's organisational capability and succession plans (which include contingencies against loss of key staff). The last review was conducted in September 2016.

### Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2020. 3i conducts its strategic planning over a five-year period; this statement is based on the first three years, which provides more certainty over the forecasting assumptions used. 3i's strategic plan, ICAAP and associated principal risks (as set out on pages 50 to 53 of the Strategic report) are the foundation of the Directors' assessment.

The assessment is overseen by the Group Finance Director and is subject to challenge by the GRC, review by the Audit and Compliance Committee and the Board.

Our Group strategic plan projects the performance, net asset value and liquidity of 3i over a five-year period and is presented at the Directors' annual strategy away day and updated throughout the year as appropriate. At the strategy away day, the Directors consider the strategy and opportunities for, and threats to, each business line and the Group as a whole. The outcome of those discussions is included in the next iteration of the strategic plan which is then used to support the viability assessment.

The Group's ICAAP and viability testing considers multiple severe, yet plausible, scenarios including a severe downside economic scenario and the impact of a material single asset event. The severe downside used in FY2017 assumes that the global economy enters a severe recession; global equities fall and long-term interest rates reach new lows. The material single asset event considers the impact of a significant asset experiencing a severe downturn in performance.

We project the amount of capital we need in the business to cover our risks, including financial and operational risks, under such stress scenarios. Our analysis shows that, while there may be a significant impact on the Group's reported performance in the short term under these scenarios, the resilience and quality of our balance sheet is such that solvency is maintained and our business remains viable.

Taking the inputs from the strategic planning process, the ICAAP and its stress scenarios, Directors reviewed an assessment of the potential effects of 3i's principal risks on its current portfolio and forecast investment and realisation activity and the consequent impact on 3i's capital and liquidity.




**Based on this assessment, the Directors have a reasonable expectation that the Company and the Group will be able to continue in operation and meet all their liabilities as they fall due up to at least March 2020.**

# Principal risks and mitigations

continued

## External

Key risk factors	Link to strategic objectives	Potential impact
Economic growth and investor and market confidence is vulnerable to ongoing challenges, including geo-political developments, in the global economy	<ul style="list-style-type: none"> <li>1 Grow investment portfolio earnings</li> <li>2 Realise investments with good cash-to-cash returns</li> </ul>	<ul style="list-style-type: none"> <li>• Limited growth or reduction in NAV owing to contraction of earnings in our investments in Private Equity or Infrastructure and/or changes in multiples and discount rates used for their valuations</li> <li>• Increases covenant risks or limits ability to refinance our investments</li> <li>• Impacts general market confidence and risk appetite</li> <li>• Leads to reduced M&amp;A volumes, economic instability and lower growth</li> </ul>
Volatility in foreign exchange and capital markets	<ul style="list-style-type: none"> <li>1 Grow investment portfolio earnings</li> <li>2 Realise investments with good cash-to-cash returns</li> <li>5 Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Unhedged foreign exchange rate movements impact total return and NAV</li> <li>• May impact portfolio performance</li> <li>• Increases risks with IPO exit route and bank financing</li> <li>• Potential for large equity market fall to impact valuation</li> </ul>
Competitive M&A markets and high pricing in 3i's core sectors	<ul style="list-style-type: none"> <li>2 Realise investments with good cash-to-cash returns</li> <li>4 Use our strong balance sheet</li> <li>5 Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced investment rates in Private Equity and Infrastructure</li> <li>• Increased risk of overpaying which impacts potential returns</li> <li>• Potential for higher cash realisations on exits</li> </ul>

Risk management and mitigation	Movement in risk status in FY2017	FY2017 outcome
<ul style="list-style-type: none"> <li>Regular portfolio company reviews and Investment Committee focus on investment strategy, exit processes and refinancing strategies</li> <li>Monthly portfolio monitoring to address portfolio issues promptly</li> <li>Valuations Committee/Board monitoring of valuations and application of policy</li> <li>Regular liquidity and currency monitoring and strategic reviews of the balance sheet</li> <li>Use of short-term hedging on investment entry or exit on a case-by-case basis</li> </ul>		<ul style="list-style-type: none"> <li>GIR strong at 40% with impact from negative macro-economic and geo-political uncertainty on 3i and its portfolio companies limited by robust performance in largest investments and sterling weakness</li> <li>Gearing remains nil and liquidity strong at £1.3bn</li> <li>Implication of the UK's decision to leave the EU reviewed at the Board, Executive Committee and GRC</li> </ul>
<ul style="list-style-type: none"> <li>Active management of exit strategies by Investment Committee to enable us to adapt to market conditions</li> <li>Portfolio company review focus on investment strategy, exit plans and refinancing strategies</li> </ul>		<ul style="list-style-type: none"> <li>Positive foreign exchange impact on NAV</li> <li>Foreign exchange exposures at the portfolio company level monitored and hedged appropriately</li> <li>Realised £154m from continued sales of quoted stakes when the markets permitted and completed the IPO of Basic-Fit</li> <li>Quoted asset exposure of 16%, with 12% being 3iN (16% TSR in the year)</li> <li>Policy to adjust multiples to reflect longer-term trends mitigated volatility in FY2017</li> </ul>
<ul style="list-style-type: none"> <li>Strong central oversight and disciplined approach to investment pipeline</li> <li>Active management of investments and exit strategies by Investment Committee</li> </ul>		<ul style="list-style-type: none"> <li>Markets were supportive in the year and we disposed of nine assets and three quoted stakes</li> <li>Invested in three new Private Equity companies and made a further investment in Q Holding</li> <li>Advised 3iN on six new investments</li> </ul>

 Risk exposure has increased  
  No significant change in risk exposure  
  Risk exposure has decreased

# Principal risks and mitigations

continued




## Investment

Key risk factors	Link to strategic objectives	Potential impact
Investment rate or quality is lower than expected due to low M&A volumes or high levels of uninvested capital leading to high prices	<ul style="list-style-type: none"> <li>④ Use our strong balance sheet</li> <li>⑤ Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Impacts longer-term returns and capital management and therefore ability to deliver strategic plan</li> <li>• Reduces staff morale and confidence</li> <li>• Cost base may not be sustainable</li> <li>• Poor investment impacts Group's reputation as an investor of proprietary capital and an adviser to 3iN</li> </ul>
Underperformance of portfolio companies	<ul style="list-style-type: none"> <li>① Grow investment portfolio earnings</li> <li>② Realise investments with good cash-to-cash returns</li> <li>⑤ Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in NAV and realisation potential, impacting shareholder returns</li> <li>• Higher value concentration in the portfolio increases the potential impact and profile of specific cases of underperformance</li> <li>• Underperformance impacts reputation as an investor of proprietary capital and an adviser to 3iN</li> </ul>

## Operational

Key risk factors	Link to strategic objectives	Potential impact
Attract and retain key people	<ul style="list-style-type: none"> <li>③ Realise investments with good cash-to-cash returns</li> <li>④ Maintain an operating cash profit</li> <li>⑤ Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to undermine investor/ shareholder confidence</li> <li>• Potential to delay execution of strategic plan</li> </ul>
New Infrastructure initiatives	<ul style="list-style-type: none"> <li>③ Maintain an operating cash profit</li> <li>④ Use our strong balance sheet</li> <li>⑤ Increase shareholder distributions</li> </ul>	<ul style="list-style-type: none"> <li>• Slower growth could impact operating cash profit and potentially dilute capital returns</li> <li>• Distract from the 3iN advisory mandate</li> </ul>

Risk management and mitigation	Movement in risk status in FY2017	FY2017 outcome
<ul style="list-style-type: none"> <li>Regular monitoring of investment and divestment pipeline</li> <li>Close oversight by management and early involvement of Investment Committee when key targets identified</li> <li>Disciplined approach to sourcing investment opportunities</li> <li>Regular review of asset allocation</li> </ul>	↔	<ul style="list-style-type: none"> <li>Substantial amounts of capital chasing yield but made three new investments and one significant further investment and also generated £982m of proceeds in Private Equity</li> <li>Significant increase in origination activity in Infrastructure with six new investments as well as the launch of a new £700m infrastructure fund, and the first close of an operational projects fund</li> </ul>
<ul style="list-style-type: none"> <li>Rigorous initial assessment of new investment opportunities to maintain quality of our investment pipeline</li> <li>Monthly portfolio monitoring to review operating performance, identify weakness and opportunity early and take action as appropriate</li> <li>Additional monitoring of Action, including 3i Chief Executive membership of the Action board</li> <li>ESG and governance requirements and monitoring</li> </ul>	↔	<ul style="list-style-type: none"> <li>93% of the assets valued on an earnings basis grew their earnings over the last 12 months</li> <li>Portfolio size continues to reduce which allows for a more targeted approach to Responsible Investment/ESG risk evaluation</li> <li>Accounting irregularities and a liquidity shortfall uncovered at Agent Provocateur. The business was entered into administration in March 2017</li> </ul>
Risk management and mitigation	Movement in risk status in FY2017	FY2017 outcome
<ul style="list-style-type: none"> <li>Annual Board review of succession planning</li> <li>Regular review of resourcing and key man exposures as part of business line reviews and the Portfolio Company Review process</li> </ul>	↔	<ul style="list-style-type: none"> <li>Organisational capability and succession plan reviewed by the Board in September 2016</li> </ul>
<ul style="list-style-type: none"> <li>Rigorous assessment of new opportunities</li> <li>Regular business updates and monthly portfolio monitoring</li> <li>Additional recruitment to ensure no dilution of our focus on the 3iN mandate</li> <li>Induction and oversight of new hires</li> </ul>	★ New	<ul style="list-style-type: none"> <li>Enhanced monthly portfolio monitoring in Infrastructure</li> <li>Close oversight by Investment Committee of new initiatives</li> </ul>

 Risk exposure has increased  
  No significant change in risk exposure  
  Risk exposure has decreased

# Corporate responsibility

3i is committed to achieving its strategic and investment objectives while behaving responsibly as an employer, as an investor and as an international corporate citizen. 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.

Our corporate responsibility strategy is defined by three key priorities:

1. Recruit and develop a diverse pool of talent
2. Invest responsibly
3. Embed responsible business practices throughout the organisation

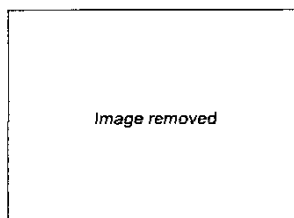
This section aims to provide a brief summary of our approach to corporate responsibility.

For more information, please see our Corporate responsibility report, available on our website.

Further information on our approach to corporate responsibility, including summaries of relevant policies, can also be found on our website.



Corporate responsibility report  
May 2017



For more information, visit  
[www.3i.com/corporate-responsibility](http://www.3i.com/corporate-responsibility)

## A responsible employer

Recruiting, retaining and developing our talent is one of our most important priorities. We work towards that objective by communicating openly and consistently with our employees, providing training and opportunities for career advancement, rewarding our employees fairly and by encouraging employees to give direct feedback to senior management. We are a meritocracy and our employees are recruited, promoted and rewarded on the basis of merit, ability and performance.

We recognise the importance of providing a supportive working environment and of providing a healthy work/life balance for all our employees. 3i has a suite of human resources policies and procedures covering areas including recruitment, vetting and performance management, equal opportunities and diversity, family-friendly policies, medical insurance and health screening, health and safety and flexible working, and appropriate processes to monitor their application. Summaries of a number of these policies can be found on our website.

## Human rights

Whilst 3i does not have a formal human rights policy, our policies are consistent with internationally-proclaimed human rights principles. We comply fully with applicable human rights legislation in the countries in which we operate, for example covering areas such as freedom of association and the right to collective bargaining, equal remuneration and protection against discrimination. For all matters relating to human rights, we comply with local laws, and if those laws provide lesser protection than UK law, we apply the principles enshrined in UK law. 3i is an equal opportunities employer and has clear grievance and disciplinary procedures, an employee assistance programme and an independent, external "whistle blowing" hotline service.

We are 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 those are more stringent. We also encourage our business partners and suppliers to adopt the same standards with respect to human rights.

## Equal opportunity and diversity

3i is fully committed to being an equal opportunities employer, and is opposed to all forms of unlawful and unfair discrimination. We believe that there are great benefits to be gained from having a diverse and varied workforce. We do not set specific diversity targets, but seek to ensure that our corporate culture and policies create an inclusive work environment that helps to bring out the best in any qualified person.

3i's Equal Opportunities and Diversity policy establishes that all 3i employees (temporary and permanent), contract workers and job applicants are treated fairly and are offered equal opportunity in selection, training, career development, promotion and remuneration.

Achieving better gender diversity is important to 3i, and we believe we are making good progress in that respect, within the constraints imposed by being a small organisation with limited staff turnover. At 31 March 2017, 3i had a total of 241 employees. The breakdown by gender was as follows:

(number)	Total <sup>3</sup>	Male	Female
All 3i employees	241	142	99
3i Group Directors <sup>1</sup>	9	6	3
Senior managers <sup>2</sup>	38	28	10

<sup>1</sup> Includes non-executive Directors who are not 3i employees

<sup>2</sup> "Senior managers" excludes Simon Borrows and Julia Wilson (who are included as Directors of 3i Group plc) and includes 23 people who were directors of undertakings included in the consolidated Group accounts, of whom 19 were male and four were female

<sup>3</sup> We sold our Debt Management division with effect from 3 March 2017. The average number of employees for FY2017 was 281.

The McGregor-Smith review on Race in the Workplace, published on 28 February 2017, highlighted the under-employment and under-promotion of people of Black or Minority Ethnic ("BME") background in UK businesses and makes the case for more inclusive organisations. The review noted that, while one in eight of the UK working age population in 2015 was from a BME background, BME individuals made up only 10% of the workforce and held only 6% of top management positions. The review contained a number of wide-ranging recommendations, including one for listed companies and all businesses and public bodies with more than 50 UK-based employees to publish a breakdown of their UK-based employees by race and pay band, and to publish aspirational targets and report against these annually. These recommendations have not been made mandatory.

As at 31 March 2017, the representation of UK-based BME employees as a percentage of total 3i employees was ahead of the one in eight proportion of people of BME background in the UK working age population. In addition, the proportion of employees of BME background as at 31 March 2017 in mid to higher salary brackets also exceeded one in eight.

## Employee engagement

We encourage a culture of open communication between our employees and senior and executive management. We benefit from being a small organisation, operating in a relatively flat structure, with few hierarchies. The members of our Executive Committee have an open-door policy and know most employees by name.

We promote and facilitate the ownership of 3i shares among employees through variable compensation or share investment plans. As a result, most of our employees are shareholders in the Company and feel invested in the success of the organisation.

We pride ourselves on the engagement and the sense of ownership we have fostered over the years, which has resulted in low unplanned turnover rates.

83% Participation in UK SIP<sup>1</sup>      10% Unplanned employee turnover rate<sup>2</sup>

<sup>1</sup> Proportion of UK-based employees who subscribe to a Share Incentive Plan available to UK employees only

<sup>2</sup> During the year, 3i sold its Debt Management business, which employed approximately 50 people, to Investcorp, and closed its Stockholm operations. The impact of these changes is excluded from the calculation of the employee turnover rate

## Graduate training scheme

Our graduate recruitment scheme, designed to develop our next generation of world-class investment professionals and business leaders, was launched in 2015. We are a small organisation, however we believe this programme is important in fostering a distinctive 3i culture. Our first five graduate analysts joined us in 2015, a further five joined us in September 2016 and a further three will join us in September 2017. The top performers on the programme are offered the opportunity to be fast-tracked directly into our business.

## A responsible investor

With fewer than 250 employees globally, as a company we have a relatively small impact in terms of the environment and other corporate responsibility issues. However, with assets under management of approximately £10 billion we recognise that our decisions as an investor potentially matter to a broad range of people. We are, therefore, committed to investing responsibly and believe that:

- the effective assessment of ESG matters has a positive effect on the value of our investee companies and of 3i Group itself;
- compliance with local laws and regulations may not be enough to meet global expectations, deliver value and enhance our reputation and license to operate; and
- it is vital that we seek to identify all material ESG risks and opportunities through our due diligence at the point we invest and effectively manage those risks and opportunities during the period of 3i's investment.

# Corporate responsibility

continued

## UNPRI

Since 2011 we have been signatories to the UN Principles for Responsible Investment.

## Our Responsible Investment policy

We have a clear and comprehensive Responsible Investment ("RI") policy which is embedded into our investment and portfolio monitoring processes. In our experience, companies with high ESG standards are typically better run, better at identifying and managing their business risks and generate better earnings growth. This policy sets out the businesses and activities in which 3i will not invest, as well as minimum standards in relation to ESG matters which we expect new portfolio companies to meet, or to commit to meeting over a reasonable time period. The policy applies to all our investments, irrespective of their country or sector.

Our RI policy has been integrated into our investment and portfolio management processes and procedures and is supported by detailed guidance notes, a global network of specialist external advisers and dedicated internal resource.

3i commits to use its influence as an investor to promote a commitment in our investee companies to:

- comply, as a minimum, with applicable local and international laws and regulations and, where appropriate, relevant international standards (such as the IFC Performance Standards and the ILO Fundamental Conventions), where these are more stringent than applicable laws;
- mitigate any adverse environmental and social impacts and enhance positive effects on the environment, workers and relevant stakeholders; and
- uphold high standards of business integrity and good corporate governance.

For more information on our approach to Responsible Investing, including a summary of our Responsible Investment policy, please visit [www.3i.com](http://www.3i.com).

## A good corporate citizen

As a company, we strive to embed responsible business practices throughout the organisation. Good corporate citizenship is achieved not only by having robust policies and processes in place, but also by promoting the right values and culture within our organisation.

All employees are assessed annually against our corporate values and have a responsibility to be aware of, and abide by, 3i's compliance, behaviour and environmental, ethical and social policies and procedures. For more information on our values, policies and processes, please see our Corporate responsibility report.

## Governance

Good corporate governance is fundamental to 3i and its activities and is critical to the delivery of value to our stakeholders. For full details of our governance structure and processes, please see the Corporate Governance section of this report.

## Transparency

As a publicly-listed company, 3i operates within a framework of formal legal and regulatory disclosure requirements as well as meeting the high expectations for transparency of our shareholders, fund investors, staff and the media. We are committed to communicating both our financial and non-financial performance in a clear, open and comprehensive manner.

## Anti-bribery and corruption

3i does not offer, pay or accept bribes and we only work with third parties whose standards of business integrity are substantively consistent with ours. We expect the businesses we invest in to operate in compliance with all applicable laws and regulations and, where appropriate, work towards meeting relevant international standards where these are more stringent. This includes, in particular, upholding high standards of business integrity, avoiding corruption in all its forms and complying with applicable anti-bribery, anti-fraud and anti-money laundering laws and regulations.

## Modern slavery

3i published its slavery and human trafficking statement, as required by section 54 of the Modern Slavery Act 2015, in September 2016 and will update this statement by the end of September 2017. 3i is committed to ensuring that:

- there is no slavery and human trafficking in any part of its business or supply chains; and
- the companies in which it invests are similarly committed to ensuring that there is no slavery or human trafficking in any part of their business or supply chains.

During FY2016, we commissioned KPMG to conduct a review of 30 portfolio companies (being those which are not directly subject to the Modern Slavery Act themselves) based on public records to identify whether any might have a higher risk of exposure to slavery or human trafficking. This review found no reports of, or references to, slavery in any of the 30 companies reviewed. Of these, 12 were identified as operating in countries or sectors with an inherently higher risk of exposure to slavery – 10 of these companies are in 3i's residual India/Asia portfolio. We will carry out further work to better understand the potential risks in relation to these companies.

## Environmental impact

This section has been prepared in accordance with our regulatory obligation to report greenhouse gas ("GHG") emissions pursuant to Section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the year to 31 March 2017, our measured Scope 1 and 2 emissions (location-based) totalled 959.8 tCO<sub>2</sub>e. This comprised:

Scope	FY2017	FY2016
1	191.0	252.4
2 Location-based	768.8	854.2
2 Market-based <sup>1</sup>	174.8	544.4

<sup>1</sup> Emissions from the consumption of electricity outside the UK and emissions from purchased electricity are calculated using the market-based approach using supplier-specific emission factors are reported in tCO<sub>2</sub> rather than tCO<sub>2</sub>e due to the availability of emission factors.

This is equivalent to 3.4 tCO<sub>2</sub>e per full-time equivalent employee, based on an average of 281 employees during the year (2016: 4.0 tCO<sub>2</sub>e; 276 employees). Overall our Scope 1 and 2 emissions decreased by 13% in the year.

Our emissions have been verified to a reasonable level of assurance by an external third party according to the ISO 14064-3 standard.

We quantify and report our organisational GHG emissions in alignment with the World Resources Institute's Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and in alignment with the new Scope 2 Guidance, which is the most significant update to the Corporate Standard since its inception.

We consolidate our organisational boundary according to the operational control approach, which includes all our offices. We have adopted a materiality threshold of 5% for GHG reporting purposes. The GHG sources that constituted our operational boundary for the year to 31 March 2017 are:

- Scope 1: natural gas combustion within boilers and fuel combustion within leased vehicles; and
- Scope 2: purchased electricity and heat consumption for our own use.

In some cases, where data is missing, values have been estimated using either extrapolation of available data or data from the previous year as a proxy.

The new Scope 2 Guidance requires that we quantify and report Scope 2 emissions according to two different methodologies ("dual reporting"): (i) the location-based method, using average emissions factors for the country in which the reported operations take place; and (ii) the market-based method, which uses the actual emissions factors of the energy procured.

Whilst we have a very low footprint on the environment, we are committed to reducing it further. In our London office, where approximately two-thirds of our employees are based and which accounts for 80% of our overall electricity consumption, we purchase all of our electricity from 100% renewable sources.

## Community

Success in our business relies on being able to recruit, motivate and retain a talented group of professionals, drawn from a diverse and representative background. We believe that diverse teams drawn from different sectors of society have a broader outlook and are better equipped to originate attractive investment opportunities and manage our portfolio. We therefore focus our charitable activities on the disadvantaged, on young people and on education, aiming to equip young people from all backgrounds with the tools and opportunities to pursue a successful career. The charities we partner with are supported on the basis of their effectiveness and impact. We also support staff giving and sponsorship through matching donations. Our charitable giving for the year to 31 March 2017 totalled £288,000.

Further details of the charities we support are available in our Corporate responsibility report.

## External benchmarking

We believe that it is important to evidence our commitment to operating responsibly and to show how we are performing. Accordingly, we provide information to shareholders and other interested stakeholders.

## Sustainability indices

We have been a member of the Dow Jones Sustainability Indices and of the FTSE4Good Index Series since 2001 and 2011 respectively. In addition, 3i became a member of the Ethibel Sustainability Index (ESI) Excellence Europe in September 2016 and was reconfirmed as a constituent of that index in March 2017.

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Logo removed

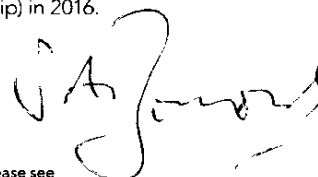
## Carbon Disclosure Project

The Carbon Disclosure Project is an international, not-for-profit organisation providing a framework which enables businesses to disclose their greenhouse emissions and other metrics voluntarily. 3i has been making annual submissions to the Carbon Disclosure Project since 2006.

In 2016, 3i was the winner of the "Most improved" award for CDP responders based in the UK, having improved its score from 94D in 2015 to A- (Leadership) in 2016.

By order of the Board

Simon Borrows  
Chief Executive  
17 May 2017



For more information, please see  
[www.sustainability-indices.com](http://www.sustainability-indices.com)  
[www.ftse.com/products/indices/FTSE4Good](http://www.ftse.com/products/indices/FTSE4Good)  
[www.forumethibel.org/content/ethibel-sustainability\\_index\\_excellence\\_europe.html](http://www.forumethibel.org/content/ethibel-sustainability_index_excellence_europe.html)

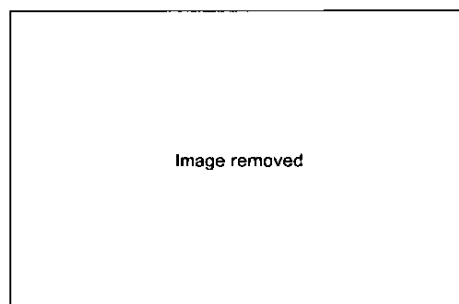
# Corporate Governance

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# Chairman's introduction

“ In an uncertain environment, strong corporate governance is critical to ensuring our long-term success. ”



Good corporate governance is fundamental to the way that 3i, and its investee companies, conduct business. Particularly in the current volatile economic and political environment, effective oversight of strategy, people and risk management are vital to the delivery of long-term, sustainable value to the Group's stakeholders. The Board must also remain responsive to the evolving regulatory environment and changing societal expectations of business.

The Board is responsible to shareholders for the overall management and oversight of the Group to ensure its long-term success. In particular, the Board is responsible for approving the Group's strategy, setting the Group's risk appetite, monitoring performance, and maintaining an effective system of risk management and internal controls. The Board is also responsible for ensuring that the Group has the necessary people, resources and structures to deliver the strategy.

Signature removed

**Simon Thompson**  
Chairman

#### Corporate governance statement

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 2014 which is available on the FRC website.

# Board of Directors and Executive Committee

## Board of Directors



**Simon Thompson**  
Chairman

Non-executive Director since April 2015 and appointed Chairman with effect from close of 2015 AGM. Non-executive director of Rio Tinto plc.

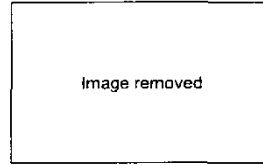
**Previous experience**  
Until April 2017 Chairman of Tullow Oil plc. Formerly an executive director of Anglo American plc and chairman of the Tarmac Group. Non-executive director of AngloGold Ashanti Ltd, Newmont Mining Corporation and Sandvik AB. Senior Independent Director of Amec Foster Wheeler plc. Previous career in investment banking with N M Rothschild and S.G. Warburg.



**Simon Borrows**  
Chief Executive

Chief Executive since 2012, and an Executive Director since he joined 3i in 2011. Chairman of the Group Risk Committee, the Executive Committee and the Group's Investment Committee. Member of the Supervisory Board of Peer Holding I B.V., the Dutch holding company for the Group's and EFV's investment in Action. Also a non-executive director at 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.



**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 2012. Joined 3i in 2006 as Deputy Finance Director. Also a non-executive director at Legal & General Group Plc.

**Previous experience**  
Formerly Group Director of Corporate Finance at Cable & Wireless plc.



**Jonathan Asquith**  
Deputy Chairman

Deputy Chairman since April 2015 and Senior Independent Director since July 2014. Non-executive Director since 2011. Chairman of Citigroup Global Markets Limited and a non-executive Director of CiCap Limited, the parent company of Collier Capital.

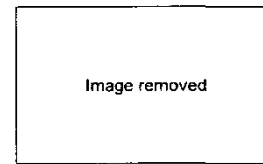
**Previous experience**  
Formerly Chairman of AXA Investment Managers. Non-executive director of Ashmore Group plc and Dexion Capital plc. Director of Schroders plc from 2002 to 2008, during which time he was Chief Financial Officer and later Vice Chairman. Previously spent 18 years in investment banking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



**David Hutchison**  
Non-executive Director

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

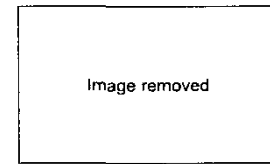
**Previous experience**  
Until 2009 Head of UK Investment Banking at Dresdner Kleinwort Limited and a member of its Global Banking Operating Committee. From 2012 to 2017, a non-executive director of the Start-Up Loans Company.



**Caroline Banzky**  
Non-executive Director

Non-executive Director since July 2014.

**Previous experience**  
Formerly the Managing Director of the Law Debenture Corporation p.l.c. from 2002 to 2016. Chief Operating Officer of SVB Holdings PLC, now Novae Group plc, a Lloyd's listed integrated vehicle, from 1997 to 2002. Previously, Finance Director of N M. Rothschild & Sons Limited from 1995 to 1997, having joined the bank in 1981. She originally trained at what is now KPMG.

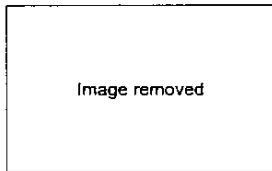


**Peter Grosch**  
Non-executive Director

Non-executive Director since November 2015. Deputy Chairman of SLM Solutions AG as well as being chairman of Euro-Diesel S.A., a 3i investee company.

**Previous experience**  
Formerly CEO and President of Diehl Aerospace and Defence Systems, Executive Vice President DaimlerChrysler Off-Highway and Managing Director and Board Member of MTU Friedrichshafen (now Rolls Royce Power Systems).

## Executive Committee



### Martine Verluyten Non-executive Director

Non-executive Director since 2012. A non-executive director of Thomas Cook Group plc, STMicroelectronics NV and Groupe Bruxelles Lambert. Will retire from the Board after the AGM in June 2017.

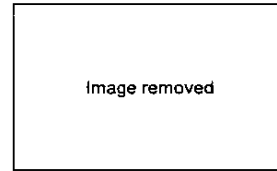
**Previous experience**  
Formerly Chief Financial Officer of Umicore, a Brussels-based listed materials technology group, from 2006 to December 2011. Before joining Umicore was Group Controller and then Chief Financial Officer of Mobistar



### Menno Antal Managing Partner, Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010. Member of the Supervisory Board of Peer Holding I B.V., the Dutch holding company for the Group's and EFV's investment in Action.

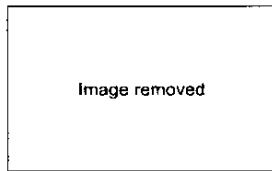
**Previous experience**  
Joined 3i in 2000 and Managing Director, Benelux, since 2003. Prior to joining 3i, spent 10 years at Heineken in a range of international managerial positions. Holds an engineering degree from Delft University and an MBA from IMD.



### Kevin Dunn General Counsel and Company Secretary

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.

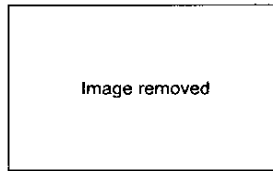
**Previous experience**  
Prior to joining 3i, was a Senior Managing Director, running GE's European Leveraged Finance business after serving as European General Counsel for GE. Prior to GE, was a partner at the law firms Travers Smith and Latham & Watkins.



### Stephen Daintith Non-executive Director

Non-executive Director since October 2016. Chief Financial Officer and an executive director of Rolls-Royce Holdings plc.

**Previous experience**  
Formerly Finance Director of Daily Mail and General Trust plc ("DMGT") from January 2011 to April 2017. Non-executive director at ZPG Plc. Prior to joining DMGT he was Chief Operating Officer and Chief Financial Officer of Dow Jones and prior to that Chief Financial Officer of News International. He originally qualified as a Chartered Accountant with Price Waterhouse (now part of PwC).



### 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 Société Générale. Qualified as a chartered accountant with KPMG and has a degree in economics.



### Phil White Managing Partner, Infrastructure

A member of the Executive Committee and the Group's Investment Committee since 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. Holds an MBA from London Business School.

# The role of the Board

## Board and Committee structure

The Board is responsible for ensuring 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 to it regularly. The membership and activities of the Audit and Compliance Committee, the Remuneration Committee, the Valuations Committee and the Nominations Committee are described in their separate reports on pages 68 to 94.

The Board reviews membership of these Committees regularly and aims to ensure that undue reliance is not placed on particular Directors. These Board Committees have clearly defined terms of reference which are available at [www.3i.com](http://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 management Committees which are outlined in the Risk section of the Strategic report on page 45.

## Board composition

Composition	Tenure	Gender diversity
<p>Executive Non-executive</p> <p>Graph removed</p>	<p>3-9 years 1-3 years Under 1 year</p> <p>Graph removed</p>	<p>Male Female</p> <p>Graph removed</p>

## Division of responsibilities

Role of the Chairman	Role of the Chief Executive	Role of non-executive Directors
<ul style="list-style-type: none"> <li>Leads the Board in setting its agenda, agreeing strategy, monitoring financial and operational performance, and establishing the Group's risk appetite.</li> <li>Organises the business of the Board, ensuring its effectiveness, and maintains an effective system of internal controls.</li> <li>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.</li> <li>Responsible for the composition of the Board and facilitates the effective contribution of non-executive Directors and constructive relationships between Executive and non-executive Directors.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Leads the Executive Committee to develop and implement the Group's strategy and manage risk and the internal control framework.</li> <li>Chairs the Investment Committee to review the acquisition, management and disposal of investments.</li> <li>Reports to the Board on financial and operational performance, risk management and progress in delivering the strategic objectives.</li> <li>Regularly engages with shareholders and other key stakeholders on the Group's activities and progress.</li> </ul>	<ul style="list-style-type: none"> <li>Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance.</li> <li>Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible.</li> <li>Determine appropriate levels of remuneration for Executive Directors and Executive Committee and have a prime role in appointing Directors and in succession planning.</li> <li>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 2016.</li> </ul>

The Board has a formal schedule of matters reserved to it and its duly authorised Committees for decision. This is described on page 95. 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 staff below the Executive Committee and the formulation and implementation of risk management policies and processes.

## How the Board operates

The Board and its Committees meet regularly, operating to an agreed timetable. Meetings are usually held in London.

Directors are expected to attend all the regular scheduled meetings of the Board and the Committees on which they serve, and to devote enough time to perform their duties. 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 is able 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 where relevant.

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

- The Group's strategic plan, related KPIs and annual budget;
- Regular reports from the Chief Executive;
- Sale of the Group's Debt Management business;
- Reviews of and updates on the Group's Private Equity, Infrastructure and Debt Management businesses;
- Regular reports from the Board's Committees;
- Remuneration and pension matters including remuneration philosophy and strategy;
- The recommendations of the Valuations Committee on valuations of investments;
- The Annual report and accounts, Half-yearly report and quarterly performance updates;
- Dividend policy and dividends;

- Reports on regulatory matters including significant regulation affecting the Group;
- Review of balance sheet strategy;
- Organisational capability and succession plans; and
- Increase in the valuation of Action in June 2016.

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.

## 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 2017 and, in brackets, the number of such meetings they were eligible to attend. In addition to these meetings a number of additional ad hoc meetings were held to deal with specific items as they arose.

The Chairman is not a member of the Audit and Compliance Committee but attends in order to keep abreast of its discussions.

	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Valuations Committee
Total meetings held	7	6	3	7	4
<b>Number attended:</b>					
S R Thompson	7(7)		3(3)		4(4)
S A Borrows	7(7)				4(4)
J S Wilson	7(7)				4(4)
J P Asquith	7(7)	6(6)	3(3)	7(7)	
C J Banzky	7(7)	6(6)	3(3)	7(7)	
S W Daintith <sup>1</sup>	4(4)	3(3)	1(1)		2(2)
P Grösch	7(7)		3(3)		4(4)
D A M Hutchison	7(7)		3(3)	7(7)	4(4)
M G Verluyten	6(7)	5(6)	2(3)		0(4)

<sup>1</sup> Appointed 1 October 2016.

# The role of the Board

continued

## Composition of the Board

The Nominations Committee is responsible for reviewing the composition of the Board and making recommendations for appointments to the Board. The Committee considers the balance of skills, experience and knowledge needed in order to enhance the Board and support the Company in the execution of its strategy. Details of the work undertaken by the Committee are set out on page 68.

## Appointment and re-election of Directors

The Nominations Committee is responsible for leading the process of appointing new directors to the Board. 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. Shareholders can also remove any Director by ordinary resolution of which special notice has been given.

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 UK Corporate Governance Code ("the Code"), all Directors are subject to reappointment every year. Accordingly, at the AGM to be held on 29 June 2017, all the Directors will retire from office. All the Directors are eligible for and (save for Ms M G Verluyten who will step down from the Board at the end of the AGM) seek reappointment. The Board's recommendation for the reappointment of Directors is set out in the 2017 Notice of AGM.

## Directors

Directors' biographical details are set out on pages 60 and 61. The Board currently comprises the Chairman, six non-executive Directors and two Executive Directors. Mr S R Thompson, Mr J P Asquith, Ms C J Banszky, Mr S A Borrow, Mr P Grosch, Mr D A M Hutchison, Ms M G Verluyten and Mrs J S Wilson served as Directors throughout the year under review. Mr S W Daintith was appointed as a non-executive Director on 1 October 2016.

Mr J P Asquith served as Senior Independent Director ("SID") throughout the year. The SID supports the Chairman and meets with him regularly. He is also available to the Company's shareholders in relation to any concerns that they may not have been able to resolve through the channels of Chairman, Chief Executive or Group Finance Director, or where the shareholder considers these channels are inappropriate.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgement 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 62. 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) and Mr P Grosch) were considered by the Board to be independent for the purposes of the Code in the year to 31 March 2017. Mr P Grosch is not considered independent because of his links with the Group's Private Equity business including his position as chairman of Euro-Diesel, a company in which the Group is invested.

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. Other than for Mr P Grosch, 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. Mr P Grosch receives director's fees from and is a shareholder in Euro-Diesel, a company in which the Group is invested.

## Training and advice

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 keep their skills up to date 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 in relation to the performance of their duties. In addition, 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.

## Performance and evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. The evaluation had been externally facilitated in the previous year by Lintstock Limited. On this occasion, the process was conducted internally by the Chairman with support from Lintstock Limited. The Chairman held one-to-one interviews with Directors informed by the results of a questionnaire prepared by Lintstock Limited which was completed by all Board members and the Company Secretary. He reported the results of the evaluation to the Board and proposed an action plan for discussion and agreement. Overall, the evaluation concluded that the Board continued to perform well, but some areas for further improvement were identified and agreed. It also identified for further Board attention matters seen as the top strategic issues to be faced over the next three to five years.

The topics covered by the evaluation included:

- consideration of Board composition;
- Board dynamics;
- time management and Board support;
- the performance of the Board's Committees;
- the Board's strategic and operational oversight;
- risk management and internal control;
- succession planning and human resources management; and
- priorities for change.

During the review Directors identified areas for further broadening of the Board's expertise through recruitment as opportunities arise. Priorities for the Board for the coming year were agreed. Areas requiring greater time for Board discussion and areas for additional Board reporting were also agreed.

In his role as Senior Independent Director, Mr J P Asquith 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.

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.

# The role of the Board

continued

## Risk management and internal control

The Board has overall responsibility for risk management and internal control, including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for ensuring that an appropriate culture has been embedded throughout the organisation. Risk management and internal control systems cannot eliminate all risks but it is the role of the Board to ensure such systems are *robust and effective and take account of such risks*. In addition such systems are 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 identify and assess the principal risks faced by the business, in the context of the Group's risk appetite, and oversee the mitigation or management of those risks. This process was in place for the year to 31 March 2017 and up to the date of this report. Details of the risk management framework can be found in the Risk section of the Strategic report on pages 44 to 53.

The overall risk management and internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council. The Audit and Compliance Committee performed its annual review of the system's effectiveness and reported its conclusions to the Board. The process has been in place for the year under review and up to the date of approval of this Annual report and accounts 2017.

## Financial reporting

In the context of the Group's internal control and risk management systems, 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 a comprehensive system of financial reporting to the Board, based on the annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting;
- 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 Auditor on accounting developments, application of accounting standards, key accounting judgements and observations on systems and controls;
- appointment of experienced and professional staff, both by *recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities*; and
- appropriate Board oversight of external reporting.

# Relations with shareholders

Overview

## Approach to Investor Relations

The Board recognises the importance of maintaining a purposeful relationship with shareholders. The Group has a comprehensive Investor Relations programme to help existing and potential investors to understand its activities, strategy and financial performance. The Chief Executive and the Group Finance Director meet with the Company's principal shareholders to discuss relevant issues as they arise. The Chairman is available to maintain a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. Non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

## Board oversight

The Executive Directors brief the Board on a regular basis on the implementation of the Investor Relations programme and on feedback received from analysts and investors. Any significant concern raised by shareholders in relation to the Group is also communicated to the Board. In addition, research reports published by investment banks on 3i are circulated to the Board on a regular basis.

The Board also receives periodic feedback from existing shareholders and potential investors through 3i's corporate brokers, Bank of America Merrill Lynch and Barclays.

## Investor Relations programme

### Meetings with principal shareholders

The Executive Directors meet with the Group's principal shareholders on a twice yearly basis, following the publication of annual and half-yearly results and as required during the year. The Chairman and Senior Independent Director are also available to meet with shareholders as required. The Investor Relations team also manages a programme of engagement with smaller shareholders, implemented through regular presentations and meetings.

### Meetings with potential investors

During the year, the Executive Directors and the Investor Relations team held regular meetings with potential investors internationally to communicate the strategy and performance of 3i.

## Annual and half-yearly results presentations

The Executive Directors present the annual and half-yearly results to institutional investors and analysts. These presentations are webcast live on 3i's website, and the on-demand webcast remains available on the website for a period of 12 months.

## Capital markets day

The 2016 capital markets day, held in June, consisted of a presentation to significant shareholders and analysts by senior 3i executives and the management team of Action, the largest investment by value in our Private Equity portfolio. This event was held in London. The presentation was focused on the Action business model and strategy and on Action's recent financial performance. The presentation materials used on the day were made available on 3i's website to enable those investors and analysts that could not attend to access the information provided at the meeting.

## Industry conferences

Throughout the year, the Executive Directors also participated in a number of industry conferences organised by investment banks for their institutional investor base. These included conferences organised by Morgan Stanley, Société Générale, KBW, Bank of America Merrill Lynch, JPMorgan Cazenove and Citi.

## Individual investors

Individual investors are encouraged to engage with the Group and provide feedback through the Investor Relations team and the Company Secretary, whose contact details are available on the website.

## Website

3i's website provides a brief description of 3i's history, current operations and strategy, as well as an archive of over 10 years of news and historical financial information on the Group and details of forthcoming events for shareholders and analysts. Annual and half-yearly results presentations are also webcast live and on-demand on 3i's website.

## Annual General Meeting

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. Business to be discussed at the meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of Directors, the appointment of the Auditor and the dividend declaration. During the meeting, shareholders are also asked to approve the financial statements and reports of the Directors and the Auditor. In addition, shareholders are asked to approve the Directors' remuneration report. The 2016 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.

Private Equity

Infrastructure

Financial review, Risk and Corporate responsibility

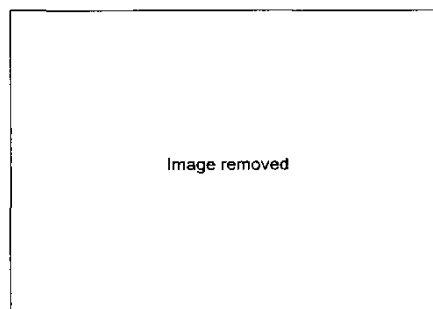
Corporate Governance

Audited financial statements

Portfolio and other information

# Nominations Committee report

“ The Nominations Committee has a vital role to play in ensuring the Board has the right balance of skills and experience to lead the Company. ”



## Membership during the year

Name	Membership status
Simon Thompson	Member since April 2015 and Chairman since June 2015
Jonathan Asquith	Member since March 2011
Caroline Banzky	Member since July 2014
Stephen Daintith	Member since October 2016
Peter Grosch	Member since November 2015
David Hutchison	Member since November 2013
Martine Verluyten	Member since January 2012

During the year, the Nominations Committee held three meetings. Attendance of members at those meetings is shown in the table on page 63.

The principal role of the Committee is to ensure that the Board has the requisite skills and experience to enable the Group to deliver its current and future strategic objectives. To this end, the Committee regularly reviews the balance and composition of the Board, and develops appropriate succession plans, including contingency plans.

The Company has a formal, rigorous and transparent process for the appointment of Directors, with the objective of identifying the skills and experience required of new Directors, and identifying and appraising suitable candidates. In the case of non-executive Directors, the appraisal includes an assessment of whether potential candidates have sufficient time available to fulfil their roles. Specialist recruitment consultants assist the Committee with this process. The Committee's recommendations for appointment are put to the full Board for approval.

During the year, the Committee considered a number of candidates for appointment as non-executive Director and recommended to the Board the appointment of Stephen Daintith, who was subsequently appointed as a Director on 1 October 2016.

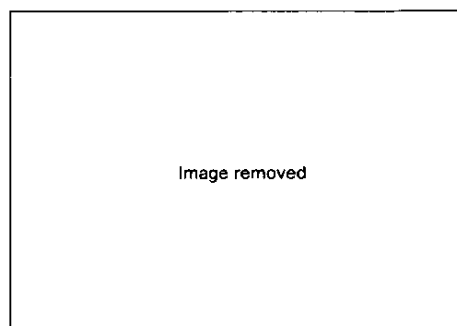
Further to the publication of the Davies Report on Women on Boards, and Code Provision B.2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a diverse Board in terms of gender, industry experience, skills and educational background, and nationality. The Board makes appointments on merit and against objective criteria. External search consultancies engaged by the Company are instructed to put forward for all Board positions a diversity of candidates including female candidates. External search consultants engaged by the Committee during the year were The Zygos Partnership. The Zygos Partnership had no other connections with the Company during the year.

By order of the Board

**Simon Thompson**  
Chairman, Nominations Committee  
17 May 2017

# Audit and Compliance Committee report

“ The Audit and Compliance Committee’s priorities in FY2017 were to maintain the strength of 3i’s internal control environment as well as the integrity of its financial reporting. ”



## Membership during the year

Name	Membership status
Caroline Banzky (Chairman)	Member since July 2014 Chairman since January 2015
Jonathan Asquith	Member since March 2011
Stephen Daintith	Member since October 2016
Martine Verluyten	Member since November 2015

The Committee is composed of independent non-executive Directors, with recent and relevant financial experience. In particular, the Board is satisfied that the Chairman has the recent and relevant financial experience as outlined in the Financial Reporting Council’s Corporate Governance Code. Further detail on each non-executive Director’s experience can be found in the Directors’ biographies on pages 60 and 61.

The Committee schedules six meetings per annum and four of the meetings are coordinated with 3i’s external reporting timetable. The attendance of members at meetings is shown in the table on page 63.

Invitations to attend the meetings are regularly extended to the Group Chief Executive, Group Finance Director, Group General Counsel, Group Financial Controller, the Head of Internal Audit, the Head of Compliance and the external Auditor, Ernst & Young LLP. Invitations are given to other members of senior management including the Head of Tax and Head of IT as appropriate. The Chairman of the Committee meets the majority of these individuals separately during the course of the year.

During the year, the Committee held private discussions with each of the Group Finance Director, the Head of Internal Audit, the Head of Compliance, and the external Auditor in the absence of management.

**Caroline Banzky**  
Chairman, Audit and Compliance Committee  
17 May 2017

# Audit and Compliance Committee report

continued

## What the Committee reviewed in FY2017

During the year the Committee's activities included the following:

Financial reporting	Internal control and risk management	External audit	Risk reviews
<ul style="list-style-type: none"> <li>• Annual and half-year reports</li> <li>• Quarterly performance updates</li> <li>• Key accounting judgements and estimates</li> <li>• Update on Alternative Performance Measures</li> <li>• Developments in financial reporting</li> <li>• Reviewing the Annual report to ensure that it is fair, balanced and understandable</li> </ul>	<ul style="list-style-type: none"> <li>• Review of 3i's system of control and risk management</li> <li>• External and internal audit reports</li> <li>• Review of the viability statement</li> <li>• External quality assessment of Internal Audit</li> <li>• Update on cyber security</li> <li>• Update on SAO regime</li> </ul>	<ul style="list-style-type: none"> <li>• Confirmation of the external Auditor's independence</li> <li>• Policy and approval for non-audit fees</li> <li>• The FY2017 Audit plan, including significant audit risks (being the valuation of the unquoted investment portfolio and the calculation of carried interest) as well as the area of audit focus (revenue recognition)</li> <li>• Audit results report</li> <li>• Auditor performance and effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>• Valuation reports and recommending the investment portfolio valuation to the Board</li> <li>• Regular reviews of compliance with regulatory rules</li> <li>• Annual report on taxation</li> <li>• Litigation</li> <li>• Liquidity and going concern</li> <li>• Update on BEPS and Country by Country reporting</li> </ul>

In addition to the areas of significant accounting judgement and monitoring the effectiveness of 3i's risk management, the Committee particularly focused on a number of topics:

### Alternative Performance Measures (APMs)

Since the implementation of IFRS 10 in FY2014, 3i has presented its results under its non-GAAP Investment basis as well as preparing IFRS financial statements. However, the Investment basis contains APMs and is itself an APM. Management prepared a report for the Committee which reviewed the rationale and presentation of the Group's APMs. This review considered the guidelines issued by the European Securities and Markets Authority ("ESMA") in the year and the Group's compliance with them. In addition, the Committee also reviewed the rationale for the changes in the calculation of operating cash profit and Assets under Management (AUM).

### Upcoming changes in IFRS

The Committee considered future changes to accounting standards (in particular, IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases).

### Taxation

The Committee receives an annual update on the Group's taxation status as well as a more general update from the Head of Tax on the status of current and upcoming legislative and regulatory changes. This year's report covered the potential impact of a number of tax transparency initiatives that have come into force, the current disclosure provided on the Group's website as well as the FRC's thematic review on tax disclosures.

### Disposal of the Debt Management business

The Committee reviewed management papers on the discontinued operations disclosure and the profit on disposal.

### Going concern and viability

The Directors are required to make a statement in the Annual report as to 3i's long-term viability. The Committee provides advice to the Board on the form and content of the statement, including the underlying assumptions. At year end, the Committee evaluated a report from management setting out its view of 3i's long-term viability and content of the proposed Viability Statement. This report was based on the Group's five-year strategic plan and covered forecasts for investments and realisations, liquidity and leverage, including forecast outcomes of the stress test of the plan and forecast capital and liquidity performance against an assessment of the Group's risk profile. The three year period was chosen as it provided more certainty on the Group's performance.

Taking into account the assessment of the Group's stress testing results and its risk appetite statement (as disclosed on page 44), the Committee agreed to recommend the viability statement and three-year viability period to the Board for approval.

## Areas of accounting judgement and control focus

The Committee pays particular attention to matters it considers to be important by virtue of their size, complexity, level of judgement and potential impact on the financial statements and wider business model.

Significant areas of accounting and control focus considered by the Committee are detailed in the table below, alongside the actions taken by the Committee (with appropriate input, guidance and challenge from the external Auditor) to address these issues/judgements.

Area of significant attention	What the Committee reviewed and concluded
<p><b>Valuation of the Proprietary Capital investment portfolio</b></p> <p>The most material area of judgement in the financial statements, and noted as a significant risk by the external Auditor, relates to the valuation of the unquoted Proprietary Capital investment portfolio, which at 31 March 2017 was £4,782 million, or 82% of net assets, under the Investment basis.</p> <p>In recognition of the importance of this area the Board has a separate Valuations Committee to review the valuations policy, process and application to individual investments. This Committee provides quarterly reports to the Committee and the Board.</p>	<p>On behalf of the Board, the Committee examined quarterly reports from the Chairman of the Valuations Committee and the Group Finance Director, with particular focus on the assumptions supporting the unquoted asset investments, any valuation uncertainties and the proposed disclosure in the financial statements.</p> <p>The 2017 Annual Report includes a separate report from the Valuations Committee. The detail on the key valuation considerations and the review and challenge undertaken in the year is included in the Valuations Committee Report on page 74 to 76.</p>
<p><b>Carried interest payable and receivable</b></p> <p>The valuation of the Proprietary Capital portfolio is a primary input into the carried interest payable and receivable balances, which are determined by reference to the valuation at 31 March 2017.</p> <p>During the year, we went through the hurdle to recognise carried interest receivable from EFV on an accounting basis. We are also through the hurdle to pay carried interest payable to investment teams on 3i's proprietary capital invested.</p>	<p>Internal Audit reviews carry plan distributions made to plan participants before the payments are made and summaries of the work done are included in updates to the Committee.</p> <p>The Committee reviewed the carried interest payable and receivable as part of the overall summary prepared by management to support the 2017 Annual report and accounts.</p>
<p><b>Fair, balanced and understandable and the presentation of 3i's results</b></p> <p>Under the UK Corporate Governance Code the Board should establish arrangements to ensure the Annual report presents a fair, balanced and understandable assessment of the Group's position and prospects.</p> <p>The Group prepares the non-GAAP Investment basis financial statements to ensure that its results remained understandable.</p>	<p>The Committee reviewed the Half-yearly and full year financial statements as well as the Quarterly Performance Updates with management, focusing on the integrity and clarity of disclosure and to ultimately enable the Board to provide the fair, balanced and understandable confirmation to shareholders in the 2017 Annual report.</p> <p>A report summarising the considerations for the 2017 Annual report was reviewed by the Committee in advance of the year end and a summary of the detailed procedures undertaken was prepared alongside the 2017 Annual report.</p> <p>Cognisant of the ESMA guidelines on APMs as well as the FRC's thematic review, the Committee reviewed a detailed paper from management on the Group's APMs which include the Investment basis.</p> <p>The external Auditor also confirmed that the inclusion of the Investment basis remained consistent with the prior year.</p>

# Audit and Compliance Committee report

continued

## Risk and internal control reviews

The Committee is responsible on behalf of the Board for overseeing the effectiveness of the Group's risk management and internal control systems. It monitors the activities of the Group Risk Committee ("GRC"), the risk management processes in place and the activities of the Internal Audit function, including its reporting on the effectiveness of controls, the use of the Group's whistleblowing facility and compliance with the UK Bribery Act.

A report summarising each quarterly GRC meeting, along with the risk report considered, is provided to the Committee for review and discussion. The risk report details the principal risks, which are derived from the Group Risk process, along with commentary on how the exposure to these risks has moved in the quarter. The Committee also monitors Internal Audit activity quarterly, covering change management and other areas of identified higher risk.

The Director, Internal Audit prepares a report on the internal controls for presentation to the Committee. The review documents the components of the internal control framework and highlights the key developments in the year. A commentary on the operation of the internal control framework over the year is also independently prepared by Internal Audit. The effectiveness of such controls is reviewed by Internal Audit annually, either through dedicated procedures or in the course of other Internal Audit reviews over the course of the year. Group Compliance carries out desk-based monitoring, business unit and thematic reviews in relation to compliance policies and other regulatory matters.

The Group maintains a framework of controls related to key financial processes, including the preparation of consolidated financial statements, and management of the associated risks. The Group's control policies and procedures, which are in accordance with the Financial Reporting Council's Guidance on risk management, internal control and related financial and business reporting has been in place throughout the financial year and up to the date on which this report was approved.

## Internal audit

The Committee continued to monitor the scope, activity, and resources of the Group's internal audit function including whether the current operating model remained effective and concluded that it remained appropriate.

During the year the Committee approved the annual internal audit plan. It also received a report from the Director, Internal Audit at each meeting summarising the audits concluded in the period and updates on outstanding agreed actions from previous reports. The Director, Internal Audit meets the Committee privately as well as meeting regularly with the Audit Committee Chairman throughout the year.

The Committee Chairman engaged an external provider in FY2017 to carry out an external quality assessment review of 3i's internal audit function. They noted that 3i generally conforms to The Institute of Internal Auditors Standards; the highest rating available for an internal audit activity.

## External audit

Ernst & Young LLP has been the Group's statutory external Auditor since before the Group was listed on the London Stock Exchange in 1994. The Committee assesses the independence and objectivity, qualifications and effectiveness of Ernst & Young LLP on an annual basis. The Committee also concludes on whether to recommend the reappointment of Ernst & Young LLP as Auditor to the Board.

The total audit fee for the year was £1.9 million (2016: £2.0 million). The Committee is satisfied that this fee is appropriate. The Committee oversees the Group's policy on the provision of non-audit services by the external Auditor.

## Auditor independence

The Group has a policy for setting out what non-audit services can be purchased from the firm appointed as external Auditor. The aim of the policy is to support and safeguard the objectivity and independence of the external Auditor and to comply with the FRC's Ethical Standards for auditors ("Ethical Standards") as updated in June 2016. It also ensures that where fees for approved non-audit services are greater than a pre-determined limit, they are subject to the Committee Chairman's prior approval.

The Policy permits certain non-audit services to be purchased, following approval, when the Committee continues to see benefits for the Group in engaging Ernst & Young LLP. Examples of this include:

- Work that is closely related to the external audit;
- A detailed understanding of the Group is required;
- Ernst & Young LLP is able to provide a higher quality and/or better value service than other potential providers.

The key principle of our policy is that permission to engage the external Auditor will always be refused when a threat to independence and/or objectivity is perceived. The Committee Chairman is asked to approve all assignments to be allocated to Ernst & Young LLP over the defined limit, other than those related to due diligence undertaken as part of the Group's investment process. Appointments in relation to the investment process are independent of the audit team and are reviewed separately by the Investment Committee. Ernst & Young LLP inform the Group of all due diligence engagements before they accept them and all material due diligence commitments are reported to the Committee Chairman.

Ernst & Young LLP has reviewed its own independence in line with these criteria and its own ethical guideline standards. This includes due diligence processes undertaken within the Group's investment activities. Ernst & Young LLP has confirmed to the Committee that following its review it is satisfied that it has acted in accordance with relevant regulatory and professional requirements.

Details of the non-audit fees paid to the Auditor are disclosed in Note 6 to the financial statements. The Committee concluded that all of these fees fell within its criteria for engaging Ernst & Young LLP and does not believe they pose a threat to the Auditor's independence or objectivity.

## Assessing external audit effectiveness

The Committee reviews the effectiveness of Ernst & Young LLP through the use of questionnaires completed by management, by considering the extent of their contribution at its meetings throughout the course of the year, and in one-to-one meetings. The Committee Chairman met Ernst & Young LLP's Head of Audit Quality for UK Financial services and their Head of Assurance for UK Financial services to discuss their approach to audit quality and what assurance had been taken in connection with their audit of 3i.

The FY2017 evaluation also reviewed the quality of the audit process, the use of Ernst & Young LLP's valuation practice to support the audit of the portfolio valuations, the technical knowledge of the team and the staff turnover within the Ernst & Young LLP audit team and the Committee concluded that the audit was effective.

## Audit tender

As noted in the FY2016 report, the Committee reviewed its audit tender timetable and delayed the tender until no later than 2020. The scale of the current engagements across the Group and its portfolio companies with the firms that may participate in any tender, as well as the complexities around how the rules would apply to private equity investment, meant that the Committee concluded that it would be appropriate to use the full transitional arrangements in relation to auditor rotation, as outlined by the Financial Reporting Council. The Committee currently expects that Ernst & Young LLP will be retained until 2020. The lead audit partner was replaced in 2016 to provide continuity until 2020, when mandatory rotation will be required. 3i is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, in the year ended 31 March 2017.

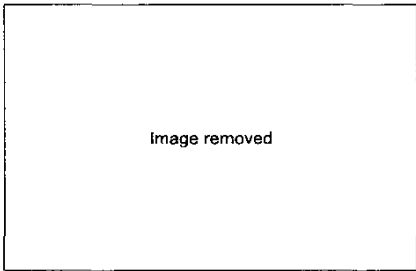
By order of the Board

**C J Banzsky**  
Chairman, Audit and Compliance Committee  
17 May 2017

Further information on the Audit and Compliance Committee's terms of reference can be found on our website [www.3i.com](http://www.3i.com)

# Valuations Committee report

“ A robust valuations process is fundamental to the integrity of the Group’s financial reporting. The Committee plays an important role in providing the Board with assurance that the valuation process is solid and independently challenged.”



## Membership during the year

Name	Membership status
David Hutchison (Chairman)	Chairman and member since December 2013
Simon Thompson	Member since June 2015
Stephen Daintith	Member since October 2016
Peter Grosch	Member since January 2016
Martine Verluyten	Member since December 2013
Simon Borrows	Member since May 2012
Julia Wilson	Member since December 2008

The Valuations Committee reports to the Audit and Compliance Committee and the Board on the valuation of the Group’s investment assets. It reviews and challenges the assumptions behind management’s proposed asset valuation.

The Committee’s activity is principally focused on the Private Equity investments as a high level of judgement is required to value the unquoted portfolio. As in previous years, the Committee devoted less time to Infrastructure due to the fact that its principal investment during FY2017 was its shareholding in 3i Infrastructure plc which is quoted. The Committee actively reviewed the value of the assets in the Group’s Debt Management business until its disposal completed on 3 March 2017 and will continue to review the valuation of the remaining positions until they are sold.

The Committee is responsible for keeping the Group’s valuation policy under review and recommending any changes to the policy to the Audit and Compliance Committee and the Board. The policy is reviewed at least annually with the last update in January 2017. The Group’s valuation policy is based on the International Private Equity and Valuation (“IPEV”) guidelines which set out recommended practice for fair valuing unquoted investments within the IFRS framework and incorporates references to AIFMD where appropriate.

## Overview of the valuation process during the year

The Group’s valuation process remained substantially unchanged in FY2017. The Committee met four times, coinciding with the Group’s external reporting obligations, and received a detailed report from the Group Finance Director at each meeting recommending the proposed valuation of the Group’s investment portfolio. This report highlighted the main drivers of value movement analysed between performance, multiple movements and other factors. At each meeting the Committee also reviewed selected assets for detailed discussion; examples of such assets covered during the year included Action, Scandlines, Christ, Weener Plastic, Audley Travel, ATESTEO, Agent Provocateur and ACR. Where relevant, the Committee also received updates on significant issues such as the first review of the impact of the UK’s decision to leave the EU on our UK assets.

In advance of the full-year and half-year reporting, management hold individual portfolio company reviews with the respective investment teams. Non-executive Directors, including members of the Valuations Committee, attended a significant proportion of the meetings held in September 2016 and March 2017 and were represented at all of the top five Private Equity portfolio company review meetings.

Meetings are open to all Directors and attended by other members of the Executive Committee as required, the Group Financial Controller and the external Auditor. The Committee Chairman meets the Group Finance Director and Group Financial Controller in advance of each meeting to discuss the key valuation assumptions and will also meet members of Investment Committee on an ad hoc basis. In addition, the Committee Chairman met privately with the external Auditor in advance of each meeting to discuss the output of their review and towards the end of the year to discuss their approach to the year-end audit.

Outside of the regular quarterly valuation process, the Board approved a material revaluation of Action, which was announced on 30 June 2016, as a result of third-party interest in the investment and its continued growth and financial trajectory. The Committee Chairman and other Committee members reviewed and discussed the valuation proposal with management ahead of its approval by the Board.

**External audit**

As part of its external audit, Ernst & Young LLP reviews the proposed investment portfolio valuation to determine that the valuation policy is being complied with and that there is consistent application and support for the underlying assumptions. As part of their year-end audit, and to support their opinion on the Financial statements as a whole, Ernst & Young LLP's specialist valuations team review a selection of Private Equity investments to provide assurance on their overall audit conclusion on the appropriateness of 3i's portfolio valuation.

**FY2017 update**

More information on our valuation methodology, including definitions and rationale, is included in the Portfolio valuation – an explanation section on pages 158 and 159.

The Committee focused on the following significant issues in the year:

Area of judgement	What the Committee did
<p><b>Private Equity</b></p> <p><b>Earnings and multiple assumptions</b></p> <p>The majority (78%) of the portfolio is valued using a multiple of earnings. This requires judgement as the earnings of the portfolio company may be adjusted so that they are considered "maintainable".</p> <p>There is also a significant degree of judgement in selecting the appropriate set of comparable quoted companies to determine the appropriate multiple to generate an enterprise value. Multiples are selected by reference to quoted comparable companies, M&amp;A transactions and input in certain cases from corporate finance advisers. We also take into account growth profile, geographic location, business mix, degree of diversification and leverage/refinancing risk. The multiple implied by the quoted comparables may be adjusted if, in certain cases, the longer-term view (cycle or exit plan) supports the use of a different multiple. This has been a particularly important exercise in light of the increased volatility experienced in the quoted equity markets over the period under review.</p>	<p>Earnings data is received monthly from Private Equity portfolio companies and monitored closely by management. Actual earnings may then be adjusted in management's proposed valuations, for example, to reflect a full year's trading of an acquired business, removing profit from discontinued activities, any forecast uncertainty or to exclude exceptional transaction costs. Material adjustments are highlighted to the Committee in the quarterly report for review and approval, including the use of March 2017 run-rate earnings for the Action valuation.</p> <p>Management continued to adjust a significant proportion of multiples used if the longer term view (of the exit or multiple) supports the use of a different multiple. Notable changes in multiples in a quarter are presented to the Committee and adjustments are reviewed by the Committee at each meeting.</p>
<p><b>Imminent sale assets</b></p> <p>At any point in time it is likely that a number of potential exit processes from the portfolio are underway. Judgement is applied by management as to the likely eventual exit proceeds and certainty of completion. This means that in some cases an asset may not be moved to an imminent sales basis until very shortly before completion; in other cases the switch may occur on signing. However, as a general rule an asset moves to an imminent sale basis only when a process is materially complete and the remaining risks are estimated to be small, given the amount of completion risk around unquoted equity transactions.</p>	<p>Assets that are within active sales processes are reviewed by the Committee including details such as the timeline to potential completion, the number and make-up of bidders for investments, execution and due diligence risks and regulatory or competition clearance issues. Management propose a treatment for each asset which the Committee reviews.</p> <p>Although not an area of valuation judgement, the Committee actively reviews the results of the back-testing that management prepares on assets disposed in each quarter to reconcile the price achieved with the carrying value at the last balance sheet date. This acts as a hindsight test of the fair value applied to assets in the quarters up to disposal.</p>
<p><b>Assets valued using a DCF basis</b></p> <p>For assets valued using DCF techniques the key valuation judgements relate to longer-term assumptions that drive the underlying business plan and cash flows and the decision on the appropriate discount rates.</p>	<p>Material assumptions and changes to these assumptions are reviewed by the Committee. This may include third-party support if available. Sensitivity to assumptions is also noted.</p> <p>Discount rates are selected by management with reference to market transactions, weighted average cost of capital calculations and other public data. Any material changes are reviewed by the Committee and external advice is sought from time to time.</p>

# Valuations Committee report

*continued*

As part of its challenge and review process, the Committee:

- considered the management information provided to support the Committee's review of the valuations, including management's responses to any challenges raised by the Committee members or the external Auditor;
- sought assurance from the external Auditor as to whether and how they had considered each of these areas; and
- reviewed the consistency of the views of management and the external Auditor.

The Committee was satisfied that the application of the policy and process was appropriate during the applicable period, and recommended the portfolio valuation to the Audit and Compliance Committee and the Board at each quarter end for approval by the Board.

## **Portfolio trends**

At least annually the Committee Chairman and management conduct a review of the valuation outcomes in the portfolio over the preceding three years. The Committee Chairman and Group Finance Director reported to the Board in May 2017 on the key observations.

By order of the Board

**D A M Hutchison**

Chairman, Valuations Committee

17 May 2017

Further information on the Valuation Committee's terms of reference can be found on our website [www.3i.com](http://www.3i.com)

# Directors' remuneration report

Overview

Private Equity

Infrastructure

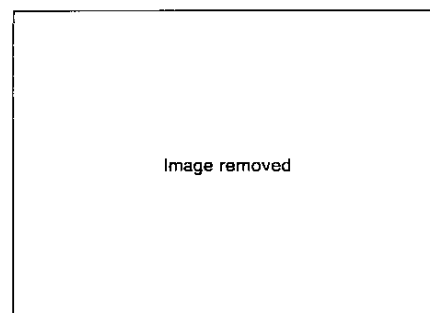
Financial review, Risk and Corporate responsibility

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“ Our remuneration framework ensures alignment with shareholders' interests and rewards the achievement of our strategic objectives. ”



## 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 2016 to 31 March 2017 ("the year") and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "FY2018" relate to the financial year 1 April 2017 to 31 March 2018.

This year's report contains two sections, being the annual report on remuneration and a new proposed Directors' remuneration policy which will be presented for approval at the 2017 AGM.

## Performance in the year

I am pleased to report that this has been another successful year for the Company with management delivering strong results across the board which are reflected in the Committee's decisions concerning the Executive Directors' remuneration. These decisions are underpinned by a balanced scorecard of both financial and strategic measures agreed by the Committee in May 2016. While the facts driving our assessment of performance against that balanced scorecard are available elsewhere in this Annual report, we have summarised them here for ease of reference.

In addition to driving the excellent performance recorded in Private Equity and Infrastructure in FY2017, the team also executed the successful sale of the Debt Management business to Investcorp half way through the year in accordance with the agreed strategy. As noted below, the Committee adjusted the threshold and target metrics for operating cash profit and Investment to take account of the timing of this sale.

## Portfolio return

Exceptional performance of the Private Equity portfolio, as well as very strong returns from the Infrastructure portfolio, generated a gross investment return of £1,755 million (2016: £1,051 million) or 40% of opening portfolio value. This was an outstanding performance against target and industry benchmarks. This year, 93% of our portfolio companies by value grew their earnings in FY2017, while 3iN's investment return of 9.4% was at the upper

end of its 8% to 10% target range. Weighted annualised TSR on our investment in 3iN, including the rights issue, was 16% for the year.

## Investment

Investment levels within our Private Equity business increased through the year, while still maintaining a disciplined and selective approach to new investments, resulting in £409 million being deployed through three new investments in Schlemmer, BoConcept and Ponroy Santé, as well as a further £62 million investment in Q Holding. The Infrastructure business advised 3iN on the acquisition of £479 million of investments. They also announced a £700 million fund for both 3i Group and third parties to purchase assets from the Eiser Global Infrastructure Fund. The Committee set a business as usual target for new fund launches in the Debt Management CLO business at the beginning of the year but this was removed in the light of the Board's decision to sell the business.

## Operating profit

Annual operating cash profits remained positive at £33 million in FY2017 (2016: £37 million) despite a reduction of £9 million, resulting from the timing of the sale of the Debt Management business, reflecting the budgeted cash income from that area in the second half of the year. Operating cash profits were supported by the performance of the Debt Management business in the first half, combined with strong fee and dividend income from the Infrastructure business and good dividend and interest income from the Private Equity portfolio. Operating expenses, including Debt Management, decreased by 3% from £134 million in FY2016 to £130 million in FY2017.

## Strategy and people

The principal strategic achievement of the year was the successful disposal of the Debt Management business, which was accomplished at a good price in a controlled and disciplined process by the in-house team without the need for an external adviser. Meanwhile, we continued to strengthen our investment capabilities through new hires and talent management in both remaining businesses.

# Directors' remuneration report

continued

## The proposed Remuneration policy and FY2018 implementation

The current Remuneration policy was approved at the 2014 AGM, which means that the Company is required to submit its policy for the next binding vote at the 2017 AGM. Over the three years in which the existing policy has operated, management have delivered exceptional returns for shareholders. In absolute terms, management have delivered total shareholder returns to 31 March 2017 of just under 104%, corresponding to 26.8% compound per annum. In relative terms, this performance puts 3i in the 94th percentile of the FTSE 250 and the 97th percentile of the FTSE 100.

Over the same period, the bonus opportunity for the Executive Directors has remained capped, growing by 3% per annum. Across the annual bonus and LTIP, 80% of awards have been delivered in the form of deferred shares and the appreciation of these shares prior to vesting has been a significant component in total remuneration for the Executive Directors at no additional cost to the Company (see chart).

The Remuneration Committee believes that total shareholder return ("TSR") continues to be an appropriate metric for measuring longer-term performance in an investment business such as 3i. The Committee has reviewed the suitability of the vesting profile of the absolute TSR metric in light of the economic environment and the need to ensure that Executives do not take excessive risk. We have concluded that the 10% to 18% range remains a demanding test of medium-term performance.

The Remuneration Committee believes that the existing policy has been demonstrably effective in aligning Executive Directors' interests with those of shareholders and therefore no material changes to the existing policy are proposed at this time. The overall remuneration framework and incentive levels will remain the same. However, taking into account feedback from our investors and current best market practice, the shareholder requirement for the Group Finance Director has been increased to 200% of base salary.

## Changes in the year

During the year, the Committee considered the structure of the Executive Directors' remuneration and concluded that the existing relatively low level of base salary, coupled with a substantial variable element, is one that allows the Committee more flexibility to align annual remuneration to the Company's performance in this highly competitive sector. Neither of the Executive Directors is entitled to participate in the Group's carried interest schemes.

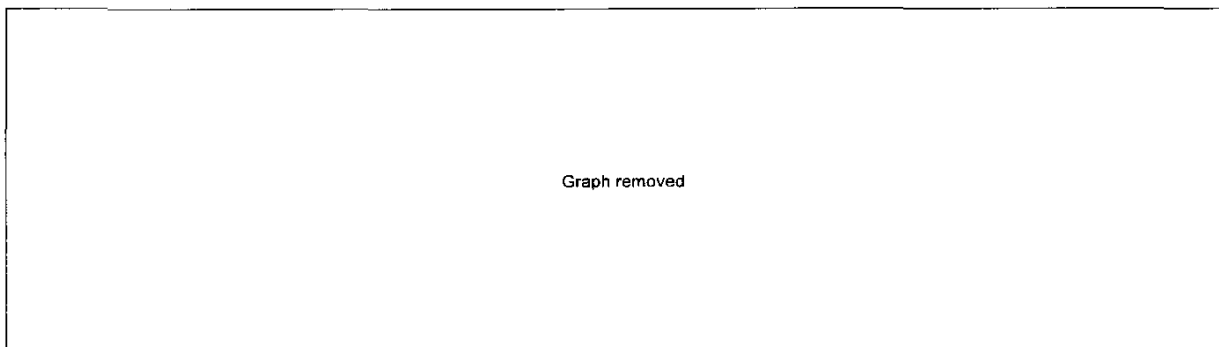
During FY2017, 3i has worked to ensure that it continues to comply with changes in regulation. The Group must comply with the Alternative Investment Fund Managers Directive ("AIFMD"), which requires the Company to deliver variable remuneration to certain staff in a particular form. The two Executive Directors are considered to be AIFMD Identified Staff, and as such, 60% of their annual bonuses will be delivered in deferred 3i Group plc shares which vest in equal instalments over four years. The remaining 40% will be delivered half in cash bonus and half in 3i Group plc shares which are subject to a six-month retention period.

The Committee reviewed the level of disclosure it makes through the annual performance metrics and the impact on remuneration. The FY2017 scorecard, which the Committee uses as a prompt and guide to judgement of performance, has been improved with half of the scorecard being linked to quantitative measures (Portfolio returns and Operating performance). As shown on page 80, these metrics have been set with threshold and maximum levels.

The Committee remains committed to maintaining a remuneration framework which rewards progress in meeting the Group's strategic objectives. We will also continue to monitor and comply with relevant guidelines and regulatory changes.

**Jonathan Asquith**  
Chairman, Remuneration Committee  
17 May 2017

## Chief Executive's single figure remuneration



## The Annual report of remuneration (Implementation report)

During FY2017, we continued to operate under the remuneration policy approved at the 2014 AGM, which can be found on our website at [www.3i.com](http://www.3i.com).

### Director remuneration for the year

Single total figure of remuneration for each Director

£'000	FY2017						FY2016					
	Salary/fees	Benefits	Pension	Annual Bonus	LTIP	Total	Salary/fees	Benefits	Pension	Annual Bonus	LTIP	Total
S A Borrows	597	14	16	2,284	4,633	7,544	579	15	16	2,159	3,052	5,821
J S Wilson	434	17	46	1,011	2,106	3,614	421	18	44	902	1,387	2,772
S Thompson	295	-	-	-	-	295	239	-	-	-	-	239
Sir Adrian Montague	-	-	-	-	-	-	70	-	-	-	-	70
J P Asquith	131	-	-	-	-	131	122	-	-	-	-	122
C J Banzky	108	-	-	-	-	108	103	-	-	-	-	103
A R Cox	-	-	-	-	-	-	50	-	-	-	-	50
S W Daintith	42	-	-	-	-	42	-	-	-	-	-	-
P Grosch	250	-	-	-	-	250	69	-	-	-	-	69
D A M Hutchison	99	-	-	-	-	99	91	-	-	-	-	91
M G Verluyten	87	-	-	-	-	87	74	-	-	-	-	74

- Benefits include a car allowance, provision of health insurance and, for Mrs Wilson, the value of the Share Incentive Plan matching share awards.
- Mr Borrows and Mrs Wilson received salary supplements in lieu of pension contributions of £16k and £46k respectively. These supplements were in line with pension contributions for the Group's employees generally.
- Annual bonus awards made in respect of the year are delivered as 60% payable in 3i Group plc shares deferred for four years, and the remaining 40% being half as a cash payment immediately and half as 3i Group plc shares which are subject to a six-month retention period. All annual bonus awards are subject to the malus/clawback policy. Those shares deferred for four years are released in four equal annual instalments over the four years commencing June 2018 and all share awards carry the right to receive dividends and other distributions.
- In the case of Ms Banzky, the sum shown for FY2017 includes an amount of £69k (including VAT) paid to her then principal employer, the Law Debenture Corporation p.l.c., which released her to serve as a non-executive Director (FY2016: £103k).
- In the case of Mr P Grosch, the sum shown includes €200k of fees paid to him by Euro-Diesel (a 3i portfolio company) for his role as Chairman.
- In addition to the table above, dividends or dividend equivalents on unvested deferred share awards were paid during the year (Mr Borrows £120k, Mrs Wilson £49k).
- The values shown in the LTIP represent the performance shares vesting from the 2014 LTIP, together with the value of accrued dividends on those shares. The shares have been valued using the 31 March 2017 closing share price (749.5 pence). Further detail is provided on page 81.
- The fees shown for the non-executive Directors include fees used to purchase shares in the Company.
- In addition to the fees shown above, Mr Borrows retained directors' fees of £75k from The British Land Company PLC, and Mrs Wilson retained directors' fees of £105k from Legal and General Group plc.

# Directors' remuneration report

continued

## FY2017 performance

### Formulaic performance measures (50% of total)

Area of strategic focus	Weighting	Metric	Threshold	Maximum	Performance	Payout
Portfolio returns	40%	Gross investment return (% of opening portfolio value)	10%	20%	36% (35% ex. DM)	100%
Operating performance	10%	Operating cash profit	£5m	£31m <sup>1</sup>	£33m	100%

<sup>1</sup> In FY2017, the Group completed the successful sale of the Debt Management business. This results in the loss of the Debt Management's fee income and portfolio income contributions in the second half of the year. As a result, the amount of operating cash profit required for maximum award has been reduced by £9 million to £31 million to reflect the sale of the Debt Management business.

### Qualitative performance measures (50% of total)

Area of strategic focus	Weighting	Metric	Target/Expectation	Performance	Comments
Portfolio returns	10%	Private Equity portfolio earnings growth	T 10%	23%	Very strong realisations and operational performance from the underlying PE portfolio driven by growth in Action and other key assets.
		3iN total return	T 10%	9.4%	3iN's investment return at the upper end of its 8%–10% target.
Investment	30%	New capital invested in Private Equity	E €500m to €750m	€583m	Higher investment levels in Private Equity than FY2016 (£365 million) while still retaining a disciplined and selective approach to new investments.
		New 3iN capital committed in Core/PPP	E n/a*	£479m	A strong level of new 3iN investment commitments in FY2017 exceeding expectations (FY2016: £193 million).
		Debt Management	E n/a*	n/a	N/a as business line sold.
Strategy and people	10%	Achievement of strategy and people targets is measured against a balanced scorecard of objectives set by the Remuneration Committee			Successful sale of the DM business, creating a higher return proprietary capital platform focused on the complementary Private Equity and Infrastructure businesses.  Consistent positive feedback from shareholders who continue to be supportive of the Group's performance and strategy.  Continued development of the Infrastructure business to deepen team capability and broaden the platform with announcement of expansion into North America.  Development, retention and succession plans for the Group's key talent and leadership team in place and progressing according to plan.  Two-year extension to November 2018 obtained for Eurofund V.

T = Target E = Expectation

\* These expectations are not disclosed as they are commercially sensitive

Consistent with last year, the Board set expectations rather than targets for some metrics. This is because the timing of acquisitions and disposals is highly sensitive to market conditions, and a more prescriptive approach would run the risk of creating perverse incentives for executives. For example, to achieve a target level of realisations may result in the earlier sale of assets than would otherwise be appropriate, or to achieve a target level of investments may result in investing at inflated prices. Adjusting for the timing of the sale of the Debt Management business, the expectations the Board set for realisations and investment were met or exceeded in each case.

In light of the achievements detailed above, and the exceptional performance of the Group in the year, the Committee awarded Mr Borrows a bonus in respect of FY2017 of £2,283,800 (being 95% of his maximum bonus opportunity), and awarded Mrs Wilson a bonus in respect of FY2017 of £1,010,770 (being 92.5% of her maximum bonus opportunity). In each case, 20% of the award will be paid in cash immediately, 20% will be delivered as shares with a retention period of six months and the remaining 60% will be deferred into the Company's shares vesting in equal instalments over four years. Annual bonus awards are subject to the malus/clawback policy. The differential between the Executive Directors' bonus percentages reflects the wider contribution of Mr Borrows to strategic and investment outcomes.

## Share awards vesting in 2017 subject to performance conditions

### 2014 Long-term incentive award

The long-term incentive awards granted in June 2014 to Mr Borrows and Mrs Wilson were subject to performance conditions based on absolute and relative Total Shareholder Return over the three financial years to 31 March 2017. The table below shows the achievement against these conditions and the resulting proportion of the awards which will vest in June 2017.

Total Shareholder Return Measure	Weighting		Threshold		Maximum		Actual	
	%	Performance	% vesting	Performance	% vesting	Performance	% vesting	
Absolute Total Shareholder Return	50%	10% p.a.	20%	18% p.a.	100%	26.8%	100%	
Relative Total Shareholder Return (as measured against the FTSE 250 Index)	50%	Median	25%	Upper quartile	100%	Above upper quartile	100%	

The table below shows the grants made to each Executive Director on 30 June 2014 at a share price of 387.7 pence and the resulting number of shares that will vest due to the achievement against the performance targets as set out above. The value of the shares vesting has been included in the single figure table using the 31 March 2017 closing share price of 749.5p.

Basis of award at grant		Face value at grant	Number of shares awarded at 387.7p per share	% vesting	Number of shares vesting	Value of share vesting at 749.5p per share
S A Borrows	Face value award of 4 times base salary of £550k	£2,200k	567,449	100%	567,449	£4,253k
J S Wilson	Face value award of 2.5 times base salary of £400k	£1,000k	257,931	100%	257,931	£1,933k

The proportion of the award vesting will be released 50% in June 2017, 25% in June 2018 and 25% in June 2019 together with the value of dividends that would have been received during the period from grant to the release date.

### 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 the year to 31 March 2016 and the year to 31 March 2017.

	Salary	Benefits	Bonus
Chief Executive	3%	0%	6%
All other employees	6%	0%	10%

# Directors' remuneration report

continued

## 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 451,708 shares. Group Finance Director – 250% of salary, being 205,322 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 2016 annual results (516.7p).
Performance period	1 April 2016 to 31 March 2019.
Performance targets	50% of the award is based on absolute TSR measured over the performance period, and vests: <ul style="list-style-type: none"> <li>• 0% vesting below 10% p.a. TSR;</li> <li>• 20% vesting at 10% p.a. TSR;</li> <li>• Straight-line vesting between 10% and 18% p.a. TSR; and</li> <li>• 100% vesting at 18% p.a. TSR.</li> </ul> 50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests: <ul style="list-style-type: none"> <li>• 0% vesting for below median performance against the index;</li> <li>• 25% vesting for median performance against the index;</li> <li>• 100% vesting for upper quartile performance against the index; and</li> <li>• Straight-line vesting between median and upper quartile performance.</li> </ul>
Remuneration Committee discretion	The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed.

## Deferred bonuses awarded in FY2017

The two Executive Directors are considered to be AIFMD Identified Staff and, as such, 60% of their annual bonuses will be delivered in 3i Group plc shares deferred for four years (and which vest one quarter per annum over those four years). The remaining 40% will be delivered half as a cash bonus and half in 3i Group plc shares which are subject to a six-month retention period. The following awards were made on 4 June 2016 in respect of FY2016 performance:

	60% of FY2016 bonus deferred for four years			20% of FY2016 delivered as shares subject to a six-month retention period		
	Face value at grant	Number of shares awarded at 516.7p per share	Vesting	Face value at grant	Number of shares awarded at 516.7p per share	Released
S A Borrows	£1,296,359	250,698	Four equal instalments annually from 1 June 2017	£431,786	83,566	At the expiry of the six-month retention period
J S Wilson	£541,059	104,714		£180,353	34,904	

These face values were reported in the FY2016 single figure of remuneration for each Director. The share price used to calculate face value was the average of the mid-market closing prices over the five working days starting with the date of the announcement of the Company's results for the year ended 31 March 2016 (14 May 2016 to 20 May 2016), which was 516.7 pence. These awards are not subject to further performance conditions.

## Share Incentive Plan

During the year Mrs Wilson participated in the HMRC approved Share Incentive Plan which allowed employees to invest up to £150 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 292 partnership shares, and received 584 matching shares and 564 dividend shares at prices ranging between £4.83 and £7.26 per share, with an average price of £6.28.

## Pension arrangements

Mr Borrows and Mrs Wilson receive pension benefits on the same basis as other employees of the Company. During the year they received salary supplements in lieu of pension of £16k and £46k respectively.

## Payments to past Directors

Mr Queen, who resigned as Chief Executive on 16 May 2012, retained interests in arrangements relating to his previous roles as Managing Partner, Infrastructure and Managing Partner, Growth Capital. During the year he received payments under those arrangements totalling £186k together with a return of a capital commitment of €89k. It is anticipated that he will receive a further payments during 2017 of £335k and €106k from these arrangements.

## Payments for loss of office

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

## 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 2.0 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 their gross salary levels and for partners in the Group's businesses at 1.0 times their gross salaries.

Details of Directors' interests (including interest of their connected persons) in the Company's shares as at 31 March 2017 are shown below. The share price on 31 March 2017 was £7.495.

	Owned outright <sup>1</sup>	Deferred shares	Subject to performance <sup>2</sup>	Shareholding requirement	Current shareholding (% salary)
S A Borrows <sup>3</sup>	11,777,499	1,622,556	870,476	300%	14,688%
J S Wilson <sup>3</sup>	432,554	721,134	395,671	200%	742%
	Shares owned outright				
S Thompson <sup>3</sup>					45,457
J P Asquith <sup>3</sup>					43,001
C Banszky <sup>3</sup>					9,995
S Daintith <sup>3</sup>					1,241
P Grosch <sup>3</sup>					4,249
D Hutchison <sup>3</sup>					59,966
M G Verluyten <sup>3</sup>					24,000

<sup>1</sup> The share interests shown for Mrs Wilson include shares held in the 3i Group Share Incentive Plan. The owned outright column includes partnership and dividend shares under the SIP. The deferred shares column includes matching shares under the SIP.

<sup>2</sup> The number of shares shown includes the 2014 Performance Share award. The performance target has been met with 100% of the shares being released as described on page 81.

<sup>3</sup> Directors are restricted from hedging their exposure to the 3i share price.

<sup>4</sup> From 1 April 2017 to 1 May 2017, Mrs Wilson became interested in a further 19 shares overall outright (SIP Partnership Shares) and a further 38 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

# Directors' remuneration report

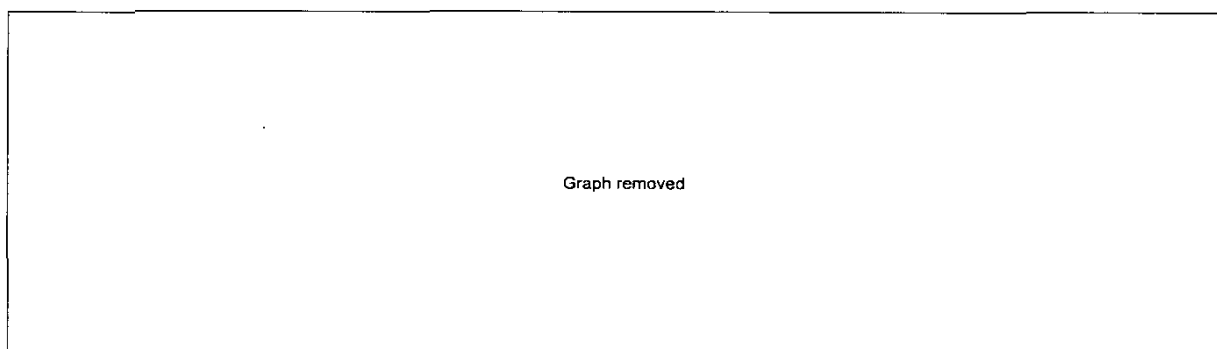
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## Performance graph and table

### TSR Graph

This graph compares the Company's total shareholder return for the eight financial years to 31 March 2017 with the total shareholder return of the FTSE 250 Index. The FTSE 250 Index is considered to be an appropriate comparator as it is representative of the underlying companies in which the Company invests.

### 3i total shareholder return vs FTSE 250 total return over the eight years to 31 March 2017



### 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
FY2017	S A Borrows	7,544	95%	100%
FY2016	S A Borrows	5,821	92.5%	98%
FY2015	S A Borrows	8,278	92.5%	90.85%
FY2014	S A Borrows	3,222	92.5%	0%
FY2013 <sup>1</sup>	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%

<sup>1</sup> 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

	2016/17	2015/16	Change %
Remuneration of all employees	£88m	£83m	6%
Dividends paid to shareholders	£230m	£190m	21%

## Statement of implementation of the remuneration policy in the coming year

As explained in the statement by the Committee Chairman, we are seeking approval for a new remuneration policy at the 2017 AGM. The table below sets out how the Committee intends to operate the remuneration policy in FY2018, on the basis that it is approved by shareholders at the 2017 AGM.

Policy element	Implementation of policy during FY2018
<b>Base salary</b>	<p>A Group-wide 3% increase to salaries will take place in FY2018, which will also be applied to Executive Director salaries. Effective from 1 July 2017, salaries for the Executive Directors will therefore be as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive: £619,030 (+3%)</li> <li>• Group Finance Director: £450,203 (+3%)</li> </ul>
<b>Pension</b>	<p>No changes to the current arrangements are proposed for FY2018. The Executive Directors will continue to receive a pension contribution or salary supplement as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive: £16k</li> <li>• Group Finance Director: 12% of salary</li> </ul>
<b>Benefits</b>	<p>No changes to the current arrangements are proposed for FY2018. Benefits will continue to include a car allowance, provision of health insurance and any Share Incentive Plan matching share awards.</p>
<b>Annual bonus</b>	<p>The maximum annual bonus opportunities for FY2018 will remain unchanged, in line with the remuneration policy, as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive: 400% of salary</li> <li>• Group Finance Director: 250% of salary</li> </ul> <p>Any bonus will be awarded based on a balanced scorecard of both financial and strategic measures agreed by the Committee, alongside a consideration of the wider context of personal performance (including values and behaviours), risk, market and other factors.</p> <p>Measures for the FY2018 scorecard are based 90% on financial measures (50% portfolio return, 30% investment management and 10% operating performance) and 10% on strategic and people objectives. They are calibrated to current business strategy and will evolve year-on-year as the Group's situation and priorities develop.</p> <p>The Committee considers that the specific targets and expectations contained within the FY2018 scorecard are commercially sensitive and therefore will not be disclosed in advance. We will report to shareholders next year on performance and the resulting bonus outturns.</p> <p>At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years.</p> <p>Awards are subject to the Company's malus and clawback policy.</p>
<b>Long-term incentive plan</b>	<p>Awards under the long-term incentive plan in FY2018 will remain unchanged and be made as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive: 400% of salary</li> <li>• Group Finance Director: 250% of salary</li> </ul> <p>Performance will be measured over a three-year period and will be determined by the Remuneration Committee. Performance measures remained unchanged from the previous year and will be as follows:</p> <p>50% of the award is based on absolute TSR measured over the performance period, and vests:</p> <ul style="list-style-type: none"> <li>• 0% vesting below 10% p.a. TSR;</li> <li>• 20% vesting at 10% p.a. TSR;</li> <li>• Straight-line vesting between 10% and 18% p.a. TSR; and</li> <li>• 100% vesting at 18% p.a. TSR.</li> </ul> <p>50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests:</p> <ul style="list-style-type: none"> <li>• 0% for below median performance against the index;</li> <li>• 25% for median performance against the index;</li> <li>• 100% for upper quartile performance against the index; and</li> <li>• Straight-line vesting between median and upper quartile performance.</li> </ul> <p>Awards are subject to the Company's malus and clawback policy.</p>
<b>Shareholding requirements</b>	<p>Shareholding requirements will be as follows:</p> <ul style="list-style-type: none"> <li>• Chief Executive: 300% of salary</li> <li>• Group Finance Director: 200% of salary</li> </ul>

# Directors' remuneration report

continued

Policy element	Implementation of policy during FY2018
<b>Non-executive Director fees</b>	<p>The fees for the Non-executive Directors for FY2018 will be:</p> <p><b>Chairman fee:</b> £280,000 plus £30,000 in 3i shares</p> <p><b>Non-executive Directors:</b></p> <p>Board membership fee: £50,000 plus 3,000 3i shares</p> <p>Deputy Chairman (including SID fee): £40,000</p> <p>Senior independent director fee: £10,000</p> <p>Committee chairman: £20,000</p> <p>Committee member: £8,000</p> <p>Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee</p>
<b>Malus and Clawback policy</b>	<p>Long-term incentive awards and deferred bonus share awards made during the year to Executive Directors (and certain other Senior Executives), 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, but is not limited to, 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.</p> <p>The Group may recover amounts that have been paid or released from awards (including cash bonus awards), as long as a written request for the recovery of such sums is made in the two-year period from the date of payment or release and in circumstances where either (a) there has been a material misstatement of Group financial statements or (b) the Group suffers a material loss, and (in either case) the Committee considers that there is reasonable evidence to show that the misstatement or loss has been caused by the individual's reckless, negligent or wilful actions or inappropriate values or behaviours.</p>

## Consideration by the Directors of matters relating to Directors' remuneration

The following Directors were members of the Remuneration Committee during the year:

### Remuneration Committee

Name	Role	Membership status	Meetings attended in the year	Meetings eligible to attend in the year
J P Asquith (Chairman)	Non-executive Director	Member since March 2011 Chairman since May 2011	7	7
C J Banzky	Non-executive Director	Member since November 2015	7	7
D A M Hutchison	Non-executive Director	Member since December 2013	7	7

The Committee's terms of reference are available on the Company's website.

The Committee appointed Deloitte LLP as advisers in 2013 and during the year they provided the Committee with external, independent advice.

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. During the year, Deloitte LLP also provided 3i with certain tax advisory services. The Committee has reviewed the advice provided during the year and is satisfied that it has been objective and independent. The total fees for advice during the year were £44,350 (excluding VAT).

The Company Chairman, Chief Executive, the Remuneration Director and the General Counsel, Company Secretary & Head of HR attend Committee meetings by invitation, other than when their personal remuneration is being discussed.

## Result of voting at the 2016 AGM

At the 2016 AGM shareholders approved the Remuneration report that was published in the 2016 Annual report and accounts. At the 2014 AGM, shareholders approved the Directors' remuneration policy. The results for both of these votes are shown below:

Resolution	Votes for	Votes against	Total votes cast	Votes withheld
Approval of the Directors' remuneration report at the 2016 AGM	680,338,260 (94.19%)	41,956,098 (5.81%)	722,294,358	7,275,252
Approval of the Directors' remuneration policy at the 2014 AGM	701,059,781 (98.10%)	13,563,200 (1.90%)	714,622,981	1,798,709

## Audit

The tables in this report (including the Notes thereto) on pages 79 to 84 have been audited by Ernst & Young LLP.

# Directors' remuneration report

continued

## 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 2017 Annual General Meeting. This policy will be put forward for shareholder approval at the 2017 Annual General Meeting in accordance with section 439A of the Companies Act 2006.

This policy remains materially unchanged from the policy approved by shareholders at the 2014 Annual General Meeting. 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
<b>Base salary</b>			
<ul style="list-style-type: none"> <li>To provide a fixed element of pay at a level that aids the recruitment, retention and motivation of high performing people.</li> <li>To reflect their role, experience and importance to the business.</li> </ul>	<ul style="list-style-type: none"> <li>Salaries are normally reviewed annually by the Committee, with any changes usually becoming effective from 1 July.</li> <li>These are reviewed by taking into account a number of factors, including:                             <ul style="list-style-type: none"> <li>performance of the Company and individual;</li> <li>wider market and economic conditions;</li> <li>any changes in responsibilities; and</li> <li>the level of increases made across the Company.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Whilst there is no maximum salary level, increases are generally considered in the context of those awarded to other employees and the wider market.</li> <li>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.</li> <li>The annual base salary for each Executive Director is set out in the Annual report on Remuneration for the year.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Pension</b>			
<ul style="list-style-type: none"> <li>To provide contributions to Executive Directors to enable them to make long-term savings to provide post-retirement income.</li> <li>Pension contributions are provided to both support retention and recruit people of the necessary calibre.</li> </ul>	<ul style="list-style-type: none"> <li>Participation in the defined contribution pension scheme (3i Retirement Plan) or cash equivalent.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Executive Directors receive a pension contribution or cash allowance of 12% of pensionable salary.</li> <li>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.</li> <li>Details for the current Executive Directors are set out in the Annual report of remuneration for the year.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Benefits</b>			
<ul style="list-style-type: none"> <li>To provide market competitive benefits at the level needed to attract and retain high performing people.</li> <li>To provide health benefits to support the well being of employees.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The Remuneration Committee may remove benefits that Executive Directors receive or introduce other benefits if it is appropriate to do so.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The Remuneration Committee may review the benefits for an existing or new Executive Director at any point.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
<b>Annual bonus</b>			
<ul style="list-style-type: none"> <li>To incentivise the achievement of the Group's strategic objectives on an annual basis.</li> <li>Deferral into shares reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and risk alignment.</li> </ul>	<ul style="list-style-type: none"> <li>Bonus awards are considered annually based on performance in the relevant financial year.</li> <li>All performance targets are reviewed and set by the Committee early in the year.</li> <li>Awards are determined by the Committee after the year based upon the actual performance against these targets.</li> <li>No more than 50% of any bonus award is paid as cash.</li> <li>At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years.</li> <li>Deferred bonus awards may be granted in the form of conditional share awards, options or forfeitable shares. Awards may also be settled in cash.</li> <li>Participants receive the value of dividends in cash on the shares which are subject to the award.</li> <li>Awards are subject to the malus/clawback policy (as set out in the Notes on page 90).</li> </ul>	<ul style="list-style-type: none"> <li>Maximum bonus of 400% of salary for the Chief Executive.</li> <li>Maximum bonus of 250% of salary for the Group Finance Director.</li> </ul>	<ul style="list-style-type: none"> <li>Performance is assessed against a balanced scorecard which aligns with the strategic objectives of the Group.</li> <li>The targets can be a range of financial, business line specific, personal, risk and other key Group targets.</li> <li>The Committee uses the scorecard as a prompt and guide to judgement and considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.</li> <li>Details of the annual performance targets (and performance against targets) are shown within the Annual report of remuneration.</li> </ul>
<b>Long-term Incentive Plan</b>			
<ul style="list-style-type: none"> <li>Alignment of reward with long-term, sustainable Company performance and the creation of shareholder value over the longer-term.</li> <li>The combination of total shareholder return targets and strategic performance measures balance internal and external perspectives of performance, and align participants with shareholders' interests.</li> </ul>	<ul style="list-style-type: none"> <li>All performance targets, along with relative weightings, are reviewed and set by the Committee prior to awards being made.</li> <li>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.</li> <li>Award levels are determined by reference to individual performance prior to grant.</li> <li>Awards vest subject to the Group's achievements against the performance targets over a fixed three-year period.</li> <li>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.</li> <li>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.</li> <li>Performance share awards are subject to the malus/clawback policy (as set out on the next page).</li> </ul>	<ul style="list-style-type: none"> <li>Awards granted in respect of a financial year will have a face value of up to 400% of salary for the Chief Executive.</li> <li>Awards granted in respect of a financial year will have a face value of up to 250% of salary for the Group Finance Director.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The achievement against these targets is measured over a three-year period and is determined by the Committee.</li> <li>The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed.</li> <li>Details of the current performance conditions are shown within the Annual report of remuneration.</li> </ul>

# Directors' remuneration report

continued

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
<b>Shareholding requirements</b>			
<ul style="list-style-type: none"> <li>To create alignment with shareholders by encouraging longer-term focus.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>In addition, shareholding targets exist for other members of the Executive Committee and for staff designated as "partners" in the Group's businesses.</li> <li>The Committee retains the ability to introduce additional retention conditions.</li> </ul>	<ul style="list-style-type: none"> <li>The shareholding targets for the Executive Directors are:                             <ul style="list-style-type: none"> <li>Chief Executive – 3.0 times salary</li> <li>Group Finance Director – 2.0 times salary</li> </ul> </li> <li>Executive Committee members have a target of 1.5 times salary and selected "partners" 1.0 times salary.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>

## 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 FY2017

There have been no major changes to the remuneration policy from that which was applied during the year, other than an increase in the shareholding requirement of the Finance Director from 150% to 200% of base salary.

### 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 Group's 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, but is not limited to, 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 Group may recover amounts that have been paid or released from awards (including cash bonus awards), as long as a written request for the recovery of such sums is made in the two-year period from the date of payment or release and in circumstances where either (a) there has been a material misstatement of Group financial statements or (b) the Group suffers a material loss, and (in either case) the Committee considers that there is reasonable evidence to show that the misstatement or loss has been caused by the individual's reckless, negligent or wilful actions or inappropriate values or behaviours.

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 – Fees

Purpose and link to strategy	Operation	Opportunity
<ul style="list-style-type: none"> <li>To attract and retain high performing non-executive Directors of the calibre required.</li> </ul>	<ul style="list-style-type: none"> <li>Non-executive Directors receive a basic annual fee.</li> <li>The fee is delivered in a mix of cash and shares.</li> <li>The Chairman's fee is reviewed annually by the Committee.</li> <li>Fees are benchmarked against other companies of comparable size and against listed financial services companies.</li> <li>The Board is responsible for determining all other non-executive Director fees, which are reviewed annually to ensure they remain appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>Additional fees are paid for the following roles/duties: <ul style="list-style-type: none"> <li>Senior Independent Director</li> <li>Committee Chairman</li> <li>Committee membership</li> </ul> </li> <li>Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.</li> </ul>

## 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, 3i 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 judgement, 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 both internal and external appointments, it may be deemed appropriate to buy out awards held in carried interest or other asset-related incentive arrangements. The Committee's intention is that any such buy out would be at a fair value at the time of appointment.

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.

# Directors' remuneration report

continued

## Service contracts

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

Provision	Policy
<b>Notice period</b>	<ul style="list-style-type: none"> <li>• 12 months' notice if given by the Company</li> <li>• 6 months' notice if given by the Executive Director</li> <li>• 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.</li> </ul>
<b>Dates of contracts</b>	<ul style="list-style-type: none"> <li>• Mr S A Borrows – 17 May 2012</li> <li>• Mrs J S Wilson – 1 October 2008</li> </ul>
<b>Termination payments</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• All Directors' contracts entitle the Company to give pay in lieu of notice.</li> </ul>
<b>Remuneration and benefits</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• On termination of employment outstanding awards will be treated in accordance with the relevant plan rules.</li> </ul>

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 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 2014 policy came into effect or (ii) before this policy came into effect, provided that the terms of payment were consistent with the shareholder approved Directors' remuneration policy in force at the time they were agreed; or (iii) 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 <sup>1</sup>	Bad leaver treatment <sup>1</sup>
<b>Deferred share awards</b>	<ul style="list-style-type: none"> <li>• Death</li> <li>• Retirement</li> <li>• Ill-health, injury, disability</li> <li>• Redundancy</li> <li>• Employing company/business ceasing to be part of 3i Group</li> <li>• "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)</li> </ul>	<p>Awards vest in full on the normal vesting date.</p> <p>On death, awards vest in full immediately.</p>	<p>Unvested awards lapse in full.</p> <p>Vested awards structured as options may be exercised for three months following the participant's cessation of employment.</p>
<b>Long-term Incentive Plan</b>	<ul style="list-style-type: none"> <li>• Death</li> <li>• Retirement</li> <li>• Ill-health, injury, disability</li> <li>• Redundancy</li> <li>• Employing company/business ceasing to be part of 3i Group</li> <li>• "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)</li> </ul>	<p>Awards vest on the normal vesting date subject to performance. Pro rating for time will apply</p> <p>If a participant dies, the Committee will determine the extent to which awards should vest as soon as practicable following the participant's death.</p>	<p>Awards normally lapse in full.</p> <p>If the Committee decides in exceptional circumstances that the awards should vest after the participant's cessation of employment, awards will vest subject to performance and pro rating for time and other conditions may be imposed.</p>

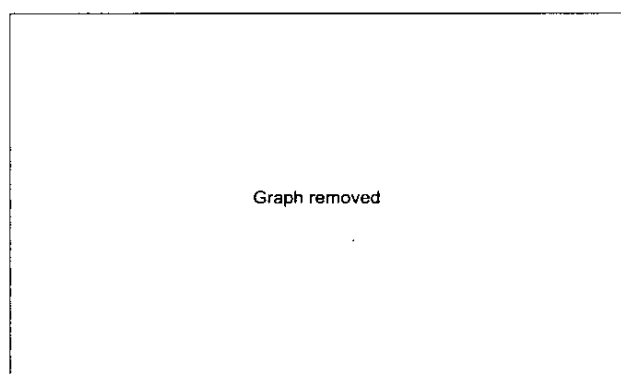
<sup>1</sup> The treatments set out in the table above apply to all employees and are expected to operate in the vast majority of cases. The Plan rules retain discretion for the Committee to reduce awards in exceptional circumstances to Good Leavers or permit vesting (in whole or in part) of awards which 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.

### Change of control

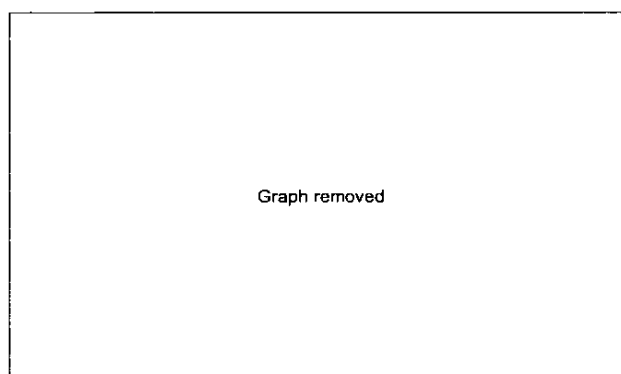
If there is a takeover or winding up of the Company, awards will vest to the extent determined by the Committee.

### Scenarios

#### Chief Executive (£000s)



#### Finance Director (£000s)



# Directors' remuneration report

continued

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.

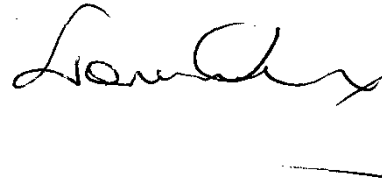
The Company does not consult with employees when preparing the Executive Director remuneration policy. However, a number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

## Consideration of shareholder views

The Committee has remained engaged with shareholders during the period since 2014, and 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.

By Order of the Board

**Jonathan Asquith**  
Chairman, Remuneration Committee  
17 May 2017



# Additional statutory and corporate governance information

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

## Corporate governance

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 2014 and which is available on the FRC website.

The Group's internal control and risk management systems including those in relation to the financial reporting process are described on page 66.

Details on the appointment and replacement of Directors are set out on page 64.

## The Board's responsibilities and processes

The composition of the Board and its Committees as well as the Board's key responsibilities and the way in which it and its Committees work are described on pages 60 to 66. The Board 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 June 2016, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits. Details of the authorities which the Board will be seeking at the 2017 AGM are set out in the 2017 Notice of AGM.

## 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 matters such as the Group's overall strategy, strategic plan and annual operating budget; approval of the Company's financial statements and changes to accounting policies or practices; changes to the capital structure or regulated status of the Company; major capital projects or changes to business operations; investments and divestments above certain limits; policy on borrowing, gearing, hedging and treasury matters; and adequacy of internal control systems.

## Investment policy

The current investment policy is set out below.

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity and infrastructure returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds in 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.

# Additional statutory and corporate governance information

continued

The UK Listing Authority's Listing Rules require 3i, as a closed-ended investment fund, to publish an investment policy. Shareholder approval is required for material changes to this policy. Non-material changes can be made by the Board. Since publication of the Annual report and accounts 2016 the Board has made one non-material change to the first sentence of the policy by deleting reference to debt management returns. This sentence previously referred to 3i providing "its shareholders with quoted access to private equity, infrastructure, and debt management returns." This change reflects the sale during the year of the Group's debt management business.

## Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2017 is set out below.

The Company's Articles of Association may be amended by special resolution of the shareholders in a general meeting. Holders of ordinary 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 any shares with preferred rights as may then be in issue.

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).

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. Where shares are held on behalf of former or current employees under employee share schemes, those participants can give instructions to the holder of such shares as to how votes attached to such shares should be exercised.

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 being 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.

## 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 2017 and 1 May 2017.

	As at 31 March 2017	% of issued share capital	As at 1 May 2017	% of issued share capital
BlackRock, Inc	84,138,478	8.65	83,690,124	8.60
Artemis Investment Management LLP	55,778,291	5.73	55,778,291	5.73
Threadneedle Asset Management Ltd	36,409,636	3.74	36,375,391	3.74
UBS Global Asset Management	32,916,558	3.38	32,939,674	3.39
Legal & General Investment Management Limited	29,774,593	3.06	29,326,239	3.01

## Share capital and debentures

The issued ordinary share capital of the Company as at 1 April 2016 was 972,661,444 ordinary shares and at 31 March 2017 was 972,808,424 ordinary shares of 73<sup>1</sup>/<sub>2</sub> pence each. It increased over the year by 146,980 ordinary shares on the issue of shares to the trustee of the 3i Group Share Incentive Plan.

At the Annual General Meeting ("AGM") on 30 June 2016, 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 16 May 2016)

until the Company's AGM in 2017 or 29 September 2017, if earlier. This authority was not exercised in the year. Details of the authorities which the Board will be seeking at the 2017 AGM are set out in the 2017 Notice of AGM.

As detailed in Note 16 to the Accounts, as at 31 March 2016 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

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.

### 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.

### Tax and investment company status

The Company is an investment company under 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.

### 3i Investments plc

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 Investments plc also acts as investment adviser to 3i Infrastructure plc under a contract which provides for the services to be provided and the related fees which are payable.

3i Investments plc is authorised by the FCA to, among other things, manage Alternative Investment Funds ("AIFs"). It is currently the Alternative Investment Fund Manager ("AIFM") of five AIFs. In compliance with regulatory requirements, 3i Investments plc has ensured that a depository has been appointed for each AIF. This is Citibank Europe plc, UK Branch.

The Annual report and accounts meet the investor disclosure requirements as set out in FUND 3.2.2R, 3.2.3R, 3.2.5R and 3.2.6R 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 105. 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 FUND disclosures have been made in relation to the Group on a consolidated basis rather than in respect of 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, 3.2.3R, 3.2.5R and 3.2.6R 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](http://www.3i.com). This will be updated as required and changes noted in future Annual reports.

The Alternative Investment Fund Managers Directive requires 3i to comply with certain reporting obligations. A summary of the remuneration policy of 3i can be found on the Company's website.

The total amount of remuneration paid by 3i to its staff for the year was £88 million, of which £41 million was fixed remuneration and £47 million was variable remuneration. The aggregate total remuneration paid to AIFM Identified Staff for the year was £23 million, of which £22 million was paid to Senior Management and £1 million was paid to other AIFM Identified Staff.

### Dividends

An interim dividend of 8.0 pence per ordinary share in respect of the year to 31 March 2017 was paid on 4 January 2017. The Directors recommend a final dividend of 18.5 pence (comprising a base dividend of 8.0 pence and an additional dividend of 10.5 pence) per ordinary share be paid in respect of the year to 31 March 2017 to shareholders on the Register at the close of business on 16 June 2017.

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.

### Directors' conflicts of interests and Directors' indemnities

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.

As permitted by the Company's Articles of Association during the year and as at the date of this Directors' report, there were in place Qualifying Third-Party Indemnity Provisions (as defined under relevant legislation) for the benefit of the Company's Directors and for the benefit of directors of one associated company and Qualifying Pension Scheme Indemnity Provisions for the benefit of the directors of one associated company.

# Additional statutory and corporate governance information

continued

## Directors' employment contracts

Mr S A Borrows and Mrs J S Wilson each have employment contracts with the Group with notice periods of 12 months where notice is given by the Group and six months where notice is given by the Director. Save for these notice periods their employment contracts have no unexpired terms. None of the other Directors has a service contract with the Company.

## 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 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.

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

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 future profits on investments. Similarly, investment executives in the Infrastructure 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 2017 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 2017, the Company was party to one agreement subject to a renegotiation period on a change of control of the Company following a takeover bid. This agreement is a £329 million multi-currency Revolving Credit Facility Agreement dated 5 September 2014, between the Company, Barclays Bank PLC and a number of other banks. The Company is required to notify Barclays 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.

## Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2017.

After making enquiries, the Directors considered it appropriate to prepare the financial statements of the Company, and the Group, on a going concern basis.

## Audit information

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

- so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- 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 Auditor is aware of such information.

## Appointment of Auditor

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

## Information required by listing rule 9.8.4

Information required by Listing Rule 9.8.4 may be found as set out below:

Topic	Location
Capitalised interest	Portfolio income on page 31
Share allotments	Note 19 on page 129
Contracts with Directors	Page 65

## Information included in Strategic report

In accordance with section 414 C (11) of the Companies Act 2006 the following information otherwise required to be set out in the Directors' report has been included in the Strategic report: risk management objectives and policies; post balance sheet events; likely future developments in the business; and greenhouse gas emissions.

The Directors' viability statement is also shown in the Strategic report on page 49.

## 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:

- select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the EU 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;
- state that the Group has complied with IFRSs as adopted by the EU, subject to any material departures disclosed and explained in the financial statements; and
- 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:

- 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
- the Strategic 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 on pages 60 and 61.

3i Group plc is registered in England with company number 1142830.

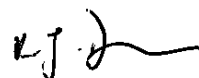
## Directors' report

For the purposes of the UK Companies Act 2006, the Directors' report of 3i Group plc comprises the Corporate Governance section on pages 58 to 99 other than the Directors' remuneration report on pages 77 to 94.

The Strategic report, Directors' report and Directors' remuneration report have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by that law.

By order of the Board

K J Dunn  
Company Secretary  
17 May 2017  
Registered Office:  
16 Palace Street  
London SW1E 5JD



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# Consolidated statement of comprehensive income

for the year to 31 March

	Notes	2017 £m	2016 <sup>1</sup> £m
Realised (losses)/profits over value on the disposal of investments	2	(25)	11
Unrealised profits on the revaluation of investments	3	262	114
Fair value movements on investment entity subsidiaries	11	1,041	591
Portfolio income			
Dividends		38	36
Interest income from investment portfolio		10	22
Fees receivable		9	9
Foreign exchange on investments		64	29
<b>Gross investment return</b>		<b>1,399</b>	<b>812</b>
Fees receivable from external funds		46	41
Operating expenses	4	(116)	(105)
Interest received		2	4
Interest paid		(49)	(47)
Exchange movements		42	64
Income/(expense) from investment entity subsidiaries		18	(10)
Other income		10	-
Carried interest			
Carried interest and performance fees receivable	13	280	73
Carried interest and performance fees payable	13	(108)	(38)
<b>Operating profit before tax</b>		<b>1,524</b>	<b>794</b>
Income taxes	7	3	(2)
<b>Profit for the year from continuing operations</b>		<b>1,527</b>	<b>792</b>
Profit for the year from discontinued operations, net of tax	31	98	25
<b>Profit for the year</b>		<b>1,625</b>	<b>817</b>
Other comprehensive (expense)/income that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		(4)	11
Other comprehensive expense that will not be reclassified to the income statement			
Re-measurements of defined benefit plans	26	(22)	(6)
<b>Other comprehensive (expense)/income for the year from continuing operations</b>		<b>(26)</b>	<b>5</b>
<b>Other comprehensive (expense)/income for the year from discontinued operations</b>	31	<b>(7)</b>	<b>2</b>
<b>Total comprehensive income for the year ("Total return")</b>		<b>1,592</b>	<b>824</b>
Earnings per share from continuing operations			
Basic (pence)	8	159.0	83.0
Diluted (pence)	8	158.3	82.6
Earnings per share			
Basic (pence)	8	169.2	85.6
Diluted (pence)	8	168.4	85.2
Dividend per share			
Interim dividend per share paid (pence)	9	8.0	6.0
Final dividend per share (pence)	9	18.5	16.0

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business, sold on 3 March 2017, as discontinued operations. See Note 3<sup>1</sup>

The Notes on pages 112 to 148 form an integral part of these financial statements.

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# Consolidated statement of financial position

as at 31 March

	Notes	2017 £m	2016 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments			
Quoted investments	10	390	297
Unquoted investments	10	1,316	1,243
Investments in investment entity subsidiaries	11	3,483	2,680
<b>Investment portfolio</b>		<b>5,189</b>	<b>4,220</b>
Carried interest and performance fees receivable	13	354	89
Other non-current assets	15	50	37
Intangible assets	14	–	12
Retirement benefit surplus	26	121	132
Property, plant and equipment		5	5
Deferred income taxes	7	–	3
<b>Total non-current assets</b>		<b>5,719</b>	<b>4,498</b>
<b>Current assets</b>			
Carried interest and performance fees receivable	13	9	28
Other current assets	15	12	31
Current income tax		2	–
Deposits		40	40
Cash and cash equivalents		931	957
<b>Total current assets</b>		<b>994</b>	<b>1,056</b>
<b>Total assets</b>		<b>6,713</b>	<b>5,554</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Trade and other payables	18	(24)	(27)
Carried interest and performance fees payable	13	(124)	(85)
Loans and borrowings	16	(575)	(575)
Retirement benefit deficit	26	(22)	(20)
Provisions	17	(2)	(1)
<b>Total non-current liabilities</b>		<b>(747)</b>	<b>(708)</b>
<b>Current liabilities</b>			
Trade and other payables	18	(103)	(99)
Carried interest and performance fees payable	13	(23)	(20)
Acquisition related earn-out charges payable		–	(1)
Loans and borrowings	16	–	(262)
Current income taxes		–	(2)
Provisions	17	(4)	(7)
<b>Total current liabilities</b>		<b>(130)</b>	<b>(391)</b>
<b>Total liabilities</b>		<b>(877)</b>	<b>(1,099)</b>
<b>Net assets</b>		<b>5,836</b>	<b>4,455</b>
<b>Equity</b>			
Issued capital	19	719	719
Share premium		785	784
Capital redemption reserve		43	43
Share-based payment reserve		30	32
Translation reserve		218	229
Capital reserve		3,390	2,080
Revenue reserve		689	622
Own shares	20	(38)	(54)
<b>Total equity</b>		<b>5,836</b>	<b>4,455</b>

The Notes on pages 112 to 148 form an integral part of these financial statements.

Simon Thompson  
Chairman  
17 May 2017

*S. R. Thompson*

# Consolidated statement of changes in equity

for the year to 31 March

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2017	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	784	43	32	229	2,080	622	(54)	4,455
Profit for the year	-	-	-	-	-	1,489	136	-	1,625
Exchange differences on translation of foreign operations	-	-	-	-	(4)	-	-	-	(4)
Re-measurements of defined benefit plans	-	-	-	-	-	(22)	-	-	(22)
Other comprehensive income from discontinued operations	-	-	-	-	(7)	-	-	-	(7)
<b>Total comprehensive income for the year</b>	-	-	-	-	(11)	1,467	136	-	1,592
Share-based payments	-	-	-	18	-	-	-	-	18
Release on exercise/forfeiture of share options	-	-	-	(20)	-	-	20	-	-
Exercise of share awards	-	-	-	-	-	(16)	-	16	-
Ordinary dividends	-	-	-	-	-	(39)	(89)	-	(128)
Additional dividends	-	-	-	-	-	(102)	-	-	(102)
Issue of ordinary shares	-	1	-	-	-	-	-	-	1
<b>Total equity at the end of the year</b>	<b>719</b>	<b>785</b>	<b>43</b>	<b>30</b>	<b>218</b>	<b>3,390</b>	<b>689</b>	<b>(38)</b>	<b>5,836</b>

2016 <sup>1</sup>	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve <sup>2</sup> £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	719	784	43	31	216	1,519	573	(79)	3,806
Profit for the year	-	-	-	-	-	705	112	-	817
Exchange differences on translation of foreign operations	-	-	-	-	11	-	-	-	11
Re-measurements of defined benefit plans	-	-	-	-	-	(6)	-	-	(6)
Other comprehensive income from discontinued operations	-	-	-	-	2	-	-	-	2
<b>Total comprehensive income for the year</b>	-	-	-	-	13	699	112	-	824
Share-based payments	-	-	-	15	-	-	-	-	15
Release on exercise/forfeiture of share options	-	-	-	(14)	-	-	14	-	-
Exercise of share awards	-	-	-	-	-	(25)	-	25	-
Ordinary dividends	-	-	-	-	-	-	(77)	-	(77)
Additional dividends	-	-	-	-	-	(113)	-	-	(113)
<b>Total equity at the end of the year</b>	<b>719</b>	<b>784</b>	<b>43</b>	<b>32</b>	<b>229</b>	<b>2,080</b>	<b>622</b>	<b>(54)</b>	<b>4,455</b>

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp on 3 March 2017, as discontinued operations. See Note 31.

<sup>2</sup> Translation reserve balance at 31 March 2016 included £7 million in relation to discontinued operations.

The Notes on pages 112 to 148 form an integral part of these financial statements

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# Consolidated cash flow statement

for the year to 31 March

	Notes	2017 £m	2016 £m
<b>Cash flow from operating activities</b>			
Purchase of investments		(334)	(87)
Proceeds from investments		310	236
Cash inflow from investment entity subsidiaries	11	246	206
Net cash flow from derivatives		–	(14)
Portfolio interest received		7	5
Portfolio dividends received		54	58
Portfolio fees received		9	7
Fees received from external funds		71	78
Carried interest and performance fees received	13	39	52
Carried interest and performance fees paid	13	(27)	(13)
Acquisition related earn-out charges paid		(1)	(30)
Operating expenses paid		(131)	(134)
Other cash income		2	–
Income taxes paid		(2)	–
<b>Net cash flow from operating activities</b>		<b>243</b>	<b>364</b>
<b>Cash flow from financing activities</b>			
Issue of shares		1	–
Dividend paid	9	(230)	(190)
Repayment of short-term borrowings		(264)	–
Repurchase of short-term borrowings		(17)	–
Interest received		2	4
Interest paid		(51)	(51)
Co-investment loans		2	–
<b>Net cash flow from financing activities</b>		<b>(557)</b>	<b>(237)</b>
<b>Cash flow from investing activities</b>			
Proceeds from sale of Debt Management business	31	232	–
Cash held in disposed subsidiaries	31	(4)	–
Purchases of property, plant and equipment		(1)	(1)
Net cash flow from deposits		–	(40)
<b>Net cash flow from investing activities</b>		<b>227</b>	<b>(41)</b>
<b>Change in cash and cash equivalents</b>		<b>(87)</b>	<b>86</b>
Cash and cash equivalents at the start of year		957	861
Effect of exchange rate fluctuations		61	10
<b>Cash and cash equivalents at the end of year</b>		<b>931</b>	<b>957</b>

The Notes on pages 112 to 148 form an integral part of these financial statements

# Company statement of financial position

as at 31 March

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	Notes	2017 £m	2016 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments			
Quoted investments	10	390	297
Unquoted investments	10	1,295	1,103
<b>Investment portfolio</b>		<b>1,685</b>	<b>1,400</b>
Carried interest and performance fees receivable		358	82
Interests in Group entities	22	3,542	2,848
Other non-current assets	15	21	17
<b>Total non-current assets</b>		<b>5,606</b>	<b>4,347</b>
<b>Current assets</b>			
Carried interest and performance fees receivable		1	5
Other current assets	15	4	9
Deposits		40	40
Cash and cash equivalents		887	857
<b>Total current assets</b>		<b>932</b>	<b>911</b>
<b>Total assets</b>		<b>6,538</b>	<b>5,258</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Carried interest and performance fees payable		(16)	(1)
Loans and borrowings	16	(575)	(575)
<b>Total non-current liabilities</b>		<b>(591)</b>	<b>(576)</b>
<b>Current liabilities</b>			
Trade and other payables	18	(506)	(417)
Acquisition related earn-out charges payable		-	(1)
Loans and borrowings	16	-	(262)
<b>Total current liabilities</b>		<b>(506)</b>	<b>(680)</b>
<b>Total liabilities</b>		<b>(1,097)</b>	<b>(1,256)</b>
<b>Net assets</b>		<b>5,441</b>	<b>4,002</b>
<b>Equity</b>			
Issued capital	19	719	719
Share premium		785	784
Capital redemption reserve		43	43
Share-based payment reserve		30	32
Capital reserve		3,874	2,462
Revenue reserve		28	16
Own shares	20	(38)	(54)
<b>Total equity</b>		<b>5,441</b>	<b>4,002</b>

The Company profit for the year to 31 March 2017 is £1,650 million (2016: £733 million).

The Notes on pages 112 to 148 form an integral part of these financial statements.

Simon Thompson  
Chairman  
17 May 2017



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# 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	Own shares £m	Total equity £m
<b>2017</b>								
Total equity at the start of the year	719	784	43	32	2,462	16	(54)	4,002
Profit for the year	-	-	-	-	1,569	81	-	1,650
<b>Total comprehensive income for the year</b>	-	-	-	-	1,569	81	-	1,650
Share-based payments	-	-	-	18	-	-	-	18
Release on exercise/forfeiture of share options	-	-	-	(20)	-	20	-	-
Exercise of share awards	-	-	-	-	(16)	-	16	-
Ordinary dividends	-	-	-	-	(39)	(89)	-	(128)
Additional dividends	-	-	-	-	(102)	-	-	(102)
Issue of ordinary shares	-	1	-	-	-	-	-	1
<b>Total equity at the end of the year</b>	<b>719</b>	<b>785</b>	<b>43</b>	<b>30</b>	<b>3,874</b>	<b>28</b>	<b>(38)</b>	<b>5,441</b>

	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
<b>2016</b>								
Total equity at the start of the year	719	784	43	31	1,895	51	(79)	3,444
Profit for the year	-	-	-	-	705	28	-	733
<b>Total comprehensive income for the year</b>	-	-	-	-	705	28	-	733
Share-based payments	-	-	-	15	-	-	-	15
Release on exercise/forfeiture of share options	-	-	-	(14)	-	14	-	-
Exercise of share awards	-	-	-	-	(25)	-	25	-
Ordinary dividends	-	-	-	-	-	(77)	-	(77)
Additional dividends	-	-	-	-	(113)	-	-	(113)
<b>Total equity at the end of the year</b>	<b>719</b>	<b>784</b>	<b>43</b>	<b>32</b>	<b>2,462</b>	<b>16</b>	<b>(54)</b>	<b>4,002</b>

The Notes on pages 112 to 148 form an integral part of these financial statements

# Company cash flow statement

for the year to 31 March

	Notes	2017 £m	2016 £m
<b>Cash flow from operating activities</b>			
Purchase of investments		(274)	(37)
Proceeds from investments		307	232
Distributions from subsidiaries		1,241	530
Drawdowns by subsidiaries		(763)	(332)
Net cash flow from derivatives		-	(14)
Portfolio interest received		6	3
Portfolio dividends received		30	35
Portfolio fees paid		(3)	(1)
Carried interest and performance fees received		15	1
Carried interest and performance fees paid		(28)	-
Acquisition related earn-out charges paid		(1)	(22)
Income taxes paid		-	(1)
<b>Net cash flow from operating activities</b>		<b>530</b>	<b>394</b>
<b>Cash flow from financing activities</b>			
Issue of shares		1	-
Dividend paid	9	(230)	(190)
Repayment of short-term borrowings		(264)	-
Repurchase of short-term borrowings		(17)	-
Interest received		2	3
Interest paid		(51)	(51)
Co-investment loans		2	-
<b>Net cash flow from financing activities</b>		<b>(557)</b>	<b>(238)</b>
<b>Cash flow from investing activities</b>			
Net cash flow from deposits		-	(40)
<b>Net cash flow from investing activities</b>		<b>-</b>	<b>(40)</b>
<b>Change in cash and cash equivalents</b>		<b>(27)</b>	<b>116</b>
Cash and cash equivalents at the start of year		857	735
Effect of exchange rate fluctuations		57	6
<b>Cash and cash equivalents at the end of year</b>		<b>887</b>	<b>857</b>

The Notes on pages 112 to 148 form an integral part of these financial statements

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# Significant accounting policies

## Reporting entity

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Consolidated financial statements ("the Group accounts") for the year to 31 March 2017 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

The Group accounts have been prepared and approved by the Directors in accordance with section 395 of the Companies Act 2006 and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its Company statement of comprehensive income and related Notes.

A number of accounting policies are disclosed below, but where possible, they have been shown as part of the Note to which they specifically relate in order to assist the reader's understanding.

## A Compliance with International Financial Reporting Standards ("IFRS")

The Group and Company accounts have been prepared and approved by the Directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee, endorsed by the European Union ("EU").

The following standards, amendments and interpretations have been issued with implementation dates, subject to EU endorsement in some cases, which do not impact on these financial statements:

Effective for annual periods beginning on or after		
IAS 7	Disclosure initiative (amendments to IAS 7 – Statement of Cash Flows)	1 January 2017
IFRS 9	Financial instruments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 16	Leases	1 January 2019

The impact of future standards and amendments on the financial statements is being assessed by the Group and the Company. The Group does not anticipate that IFRS 9 and IFRS 16 will have a material impact on its results. The detailed assessment of the extent to which IFRS 15 may affect the carried interest receivable recognition in the Group's financial statements is ongoing.

## B Basis of preparation

The financial statements are prepared on a going concern basis as disclosed in the Directors' report and presented to the nearest million.

## 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, 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. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

3i Group plc 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 at fair value through profit or loss. 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 are deemed investment entities, in which case they are fair valued.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated upon consolidation.

## (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 Consolidated statement of financial position at fair value even though the Group may have significant influence over those companies.

## (iii) Composition of the Group

The Group comprises 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 exception from consolidation on an annual basis. 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.

### Holding companies of investment managers/advisers – Consolidated

These entities provide investment related services through their subsidiaries. Typically they do not hold any direct investment in portfolio assets and these entities are not investment entities.

### 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 partnerships 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 profit and loss.

### Portfolio investments – Fair valued

Under IFRS 10, the test for accounting subsidiaries takes wider factors of control as well as actual equity ownership into account. In accordance with the investment entity exception, these entities have been held at fair value with movements in fair value being recognised in the Consolidated statement of comprehensive income.

### Structured entities – Fair valued

The Group has retained interests in a number of unconsolidated structured entities, being CLO equity investments, and their current carrying value and a description is included in Note 29.

## D Critical accounting estimates and judgements

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated.

The judgements, assumptions and estimates involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are the following:

### (a) The fair valuation of the investment portfolio

The investment portfolio is held at fair value. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee is included in the Governance section of the Annual report.

## Significant accounting policies

continued

### (b) Assessment as an 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.

The Board has concluded that the Company continues to meet the definition of an investment entity as its strategic objective of investing in portfolio investments and providing investment management services to investors for the purpose of generating returns in the form of investment income and capital appreciation remains unchanged.

The Group is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment is accurate. Further detail on our review of our application of IFRS 10 can be found in the Reconciliation of Investment basis to IFRS section.

### (c) Valuation of the defined benefit schemes

The Group also considers the valuation of the defined benefit schemes in accordance with IAS 19 to be a significant estimate. The Group reviews its assumptions annually with its independent actuaries.

## E Other accounting policies

### (a) Revenue recognition

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:

- I. 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 interest income from investment portfolio, 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.
- II. Unrealised profits or losses on the revaluation of investments are the movement in the fair 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 fair value assessment.
- III. Fair value movements on investment entity subsidiaries are the movements in the fair 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.
- IV. 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 in accordance with IAS 18 must be met before the income is recognised:
  - Dividends from equity investments are recognised in the Consolidated statement of comprehensive income when the shareholders' rights to receive payment have been established. Income received on the investment in the most junior ranked level of CLO capital is recognised as a dividend. £26 million was received in the year (2016: £31 million) from continuing and discontinued operations.
  - Interest income from investment portfolio 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. Income received on the instruments in the most junior level of CLO capital is recognised as a dividend as detailed above. £26 million was received in the year (2016: £31 million) from continuing and discontinued operations.
  - 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.
- V. 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.

### (b) Foreign currency translation

For the Company and those subsidiaries whose balance sheets are denominated in sterling, which is the Company's functional and presentational currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising are taken to the Consolidated statement of comprehensive income.

The statements of financial position of subsidiaries and associates denominated in foreign currencies are translated into sterling at the closing rates. The statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the Consolidated statement of comprehensive income in the period in which the subsidiary or associate is disposed of.

Exchange movements in relation to forward foreign exchange contracts are included within exchange movements in the Consolidated statement of comprehensive income, where appropriate. No forward foreign exchange contracts were held in the current year and in 2016 a £14 million loss was recognised in exchange movements.

### (c) Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and minimise the overall costs of borrowing.

Cash and cash equivalents comprise cash at bank, short-term deposits and amounts held in money market funds, which are readily convertible into cash and there is an insignificant risk of changes in value. 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.

# Notes to the accounts

## 1 Segmental analysis

Operating segments are the components of the Group whose results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

The Chief Executive, who is considered to be the chief operating decision maker, managed the Group on the basis of business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. A description of the activities, including products and services offered by these divisions and the allocation of resources, is given in the Strategic report. For the geographical segmental split, revenue information is based on the locations of the assets held.

The segmental information that follows is presented on the basis used by the Chief Executive to monitor the performance of the Group. The reported segments are Private Equity, Infrastructure and other, where other comprises the residual investments retained following the sale of our Debt Management business.

Investment basis	Private Equity £m	Infrastructure £m	Other <sup>1</sup> £m	Total continuing operations £m	Discontinued operations <sup>1</sup> £m	Total £m
<b>Year to 31 March 2017</b>						
Realised profits/(losses) over value on the disposal of investments	38	(1)	1	38	–	38
Unrealised profits on the revaluation of investments	1,274	59	9	1,342	3	1,345
Portfolio income						
Dividends	8	23	19	50	16	66
Interest income from investment portfolio	50	–	–	50	3	53
Fees receivable	6	–	–	6	–	6
Foreign exchange on investments	248	6	15	269	16	285
<b>Gross investment return</b>	<b>1,624</b>	<b>87</b>	<b>44</b>	<b>1,755</b>	<b>38</b>	<b>1,793</b>
Fees receivable from external funds	10	36	–	46	25	71
Operating expenses	(76)	(41)	–	(117)	(13)	(130)
Interest receivable	–	–	–	2	–	2
Interest payable	–	–	–	(49)	–	(49)
Exchange movements	–	–	–	28	(9)	19
Other income	–	–	–	10	2	12
<b>Operating profit before carry</b>				<b>1,675</b>	<b>43</b>	<b>1,718</b>
Carried interest						
Carried interest and performance fees receivable	275	4	–	279	1	280
Carried interest and performance fees payable	(431)	(3)	–	(434)	–	(434)
<b>Operating profit</b>				<b>1,520</b>	<b>44</b>	<b>1,564</b>
Profit on disposal of Debt Management business before tax				–	48	48
Income taxes				3	(1)	2
Other comprehensive income						
Re-measurements of defined benefit plans				(22)	–	(22)
<b>Total return</b>				<b>1,501</b>	<b>91</b>	<b>1,592</b>
<b>Net divestment/(investment)</b>						
Realisations <sup>2</sup>	982	12	11	1,005	270	1,275
Cash investment	(478)	(131)	(29)	(638)	(51)	(689)
	504	(119)	(18)	367	219	586
<b>Balance sheet</b>						
Opening portfolio value at 1 April 2016 <sup>3</sup>	3,741	527	92	4,360	137	4,497
Investment <sup>4</sup>	548	131	29	708	51	759
Value disposed	(944)	(13)	(10)	(967)	(191)	(1,158)
Unrealised value movement	1,274	59	9	1,342	3	1,345
Other movement <sup>5</sup>	212	2	18	232	–	232
<b>Closing portfolio value at 31 March 2017</b>	<b>4,831</b>	<b>706</b>	<b>138</b>	<b>5,675</b>	<b>–</b>	<b>5,675</b>

<sup>1</sup> Discontinued operations relate to the Debt Management business sold to Investcorp. Other relates to the residual Debt Management investments retained by 3i.

<sup>2</sup> Private Equity does not include proceeds paid from investee holding companies of £33 million. Total proceeds from the sale of the Debt Management business were £270 million, of which £17 million related to the investment made by 3i Group plc on behalf of Debt Management Investments Ltd and £16 million related to an intercompany loan provided by 3i Group plc to Debt Management US LLC and not included within the consolidated Group.

<sup>3</sup> The opening portfolio values have been re-presented to reflect the classification of the Group's Debt Management business sold to Investcorp as discontinued operations. See Note 31. The residual Debt Management stakes are included within Other.

<sup>4</sup> Includes capitalised interest and other non-cash investment.

<sup>5</sup> Other movement relates to foreign exchange and the provisioning of capitalised interest.

## 1 Segmental analysis continued

Investment basis	Private Equity £m	Infrastructure £m	Other <sup>1</sup> £m	Total continuing operations £m	Discontinued operations <sup>1</sup> £m	Total £m
Year to 31 March 2016						
Realised profits over value on the disposal of investments	69	3	–	72	–	72
Unrealised profits/(losses) on the revaluation of investments	690	22	(22)	690	(21)	669
<b>Portfolio income</b>						
Dividends	18	21	10	49	22	71
Interest income from investment portfolio	59	–	–	59	4	63
Fees receivable/(payable)	7	–	–	7	(1)	6
Foreign exchange on investments	168	1	5	174	14	188
<b>Gross investment return</b>	<b>1,011</b>	<b>47</b>	<b>(7)</b>	<b>1,051</b>	<b>18</b>	<b>1,069</b>
Fees receivable from external funds	13	28	–	41	38	79
Operating expenses <sup>2</sup>	(75)	(32)	–	(107)	(27)	(134)
Interest receivable	–	–	–	4	–	4
Interest payable	–	–	–	(47)	–	(47)
Exchange movements	–	–	–	(31)	–	(31)
<b>Operating profit before carry</b>				<b>911</b>	<b>29</b>	<b>940</b>
<b>Carried interest</b>						
Carried interest and performance fees receivable	58	20	–	78	5	83
Carried interest and performance fees payable	(171)	(15)	–	(186)	(2)	(188)
Acquisition related earn-out charges	–	–	–	–	(5)	(5)
<b>Operating profit</b>				<b>803</b>	<b>27</b>	<b>830</b>
Income taxes	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	–	–
Re-measurements of defined benefit plans	–	–	–	(6)	–	(6)
<b>Total return</b>				<b>797</b>	<b>27</b>	<b>824</b>
<b>Net divestment/(investment)</b>						
Realisations <sup>3</sup>	743	51	–	794	2	796
Cash investment <sup>4</sup>	(365)	–	(68)	(433)	(20)	(453)
	378	51	(68)	361	(18)	343
<b>Balance sheet</b>						
Opening portfolio value at 1 April 2015	3,148	553	51	3,752	125	3,877
Investment <sup>5</sup>	464	–	68	532	20	552
Value disposed	(674)	(48)	–	(722)	(2)	(724)
Unrealised value movement	690	22	(22)	690	(21)	669
Other movement <sup>6</sup>	113	–	(5)	108	15	123
<b>Closing portfolio value at 31 March 2016</b>	<b>3,741</b>	<b>527</b>	<b>92</b>	<b>4,360</b>	<b>137</b>	<b>4,497</b>

1 Discontinued operations comprise the Debt Management business sold to Investcorp on 3 March 2017. Operating expenses have been re-presented to reflect only direct expenses relating to Debt Management within discontinued operations. Other relates to the residual Debt Management investments retained by 3i.

2 Includes restructuring costs of £5 million for Private Equity.

3 £25 million in Private Equity relates to proceeds held back in the holding company of the investee company.

4 Includes £4 million of Debt Management investment awaiting settlement at 31 March 2016.

5 Includes capitalised interest and other non-cash investment.

6 Other movement relates to foreign exchange and the provisioning of capitalised interest. Within discontinued operations, £9 million relates to capital withdrawn from the Palace Street I portfolio.

# Notes to the accounts

continued

## 1 Segmental analysis continued

Investment basis	UK £m	Northern Europe £m	North America £m	Rest of World £m	Total £m
<b>Year to 31 March 2017</b>					
<b>Gross investment return</b>					
Realised (losses)/profits over value on the disposal of investments	(33)	51	12	8	38
Unrealised profits/(losses) on the revaluation of investments	160	1,183	12	(10)	1,345
Portfolio income/(expense)	34	77	15	(1)	125
Foreign exchange on investments	1	196	43	45	285
	<b>162</b>	<b>1,507</b>	<b>82</b>	<b>42</b>	<b>1,793</b>
<b>Net divestment/(investment)</b>					
Realisations	239	818	179	39	1,275
Cash investment	(131)	(488)	(69)	(1)	(689)
	<b>108</b>	<b>330</b>	<b>110</b>	<b>38</b>	<b>586</b>
<b>Balance sheet</b>					
<b>Closing portfolio value at 31 March 2017</b>	<b>1,309</b>	<b>3,639</b>	<b>349</b>	<b>378</b>	<b>5,675</b>
<b>Year to 31 March 2016</b>					
<b>Gross investment return</b>					
Realised profits over value on the disposal of investments	8	49	4	11	72
Unrealised profits/(losses) on the revaluation of investments	11	707	(50)	1	669
Portfolio income	59	66	12	3	140
Foreign exchange on investments	2	175	11	–	188
	<b>80</b>	<b>997</b>	<b>(23)</b>	<b>15</b>	<b>1,069</b>
<b>Net divestment/(investment)</b>					
Realisations	62	586	96	52	796
Cash investment	(121)	(272)	(60)	–	(453)
	<b>(59)</b>	<b>314</b>	<b>36</b>	<b>52</b>	<b>343</b>
<b>Balance sheet</b>					
<b>Closing portfolio value at 31 March 2016</b>	<b>1,240</b>	<b>2,498</b>	<b>385</b>	<b>374</b>	<b>4,497</b>

## 2 Realised profits over value on the disposal of investments

	2017 Unquoted investments £m	2017 Quoted investments £m	2017 Total £m
Realisations	266	20	286
Valuation of disposed investments	(292)	(19)	(311)
	(26)	1	(25)
Of which:			
– profits recognised on realisations	23	1	24
– losses recognised on realisations	(49)	–	(49)
	(26)	1	(25)
	2016 Unquoted investments <sup>1</sup> £m	2016 Quoted investments <sup>1</sup> £m	2016 Total <sup>1</sup> £m
Realisations	176	60	236
Valuation of disposed investments	(166)	(59)	(225)
	10	1	11
Of which:			
– profits recognised on realisations	12	2	14
– losses recognised on realisations	(2)	(1)	(3)
	10	1	11

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 31

## 3 Unrealised profits on the revaluation of investments

	2017 Unquoted investments £m	2017 Quoted investments £m	2017 Total £m
Movement in the fair value of investments	224	38	262
Of which:			
– unrealised gains	243	38	281
– unrealised losses	(19)	–	(19)
	224	38	262
	2016 Unquoted investments <sup>1</sup> £m	2016 Quoted investments <sup>1</sup> £m	2016 Total <sup>1</sup> £m
Movement in the fair value of investments	94	20	114
Of which:			
– unrealised gains	155	20	175
– unrealised losses	(61)	–	(61)
	94	20	114

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 31

Audited financial statements

# Notes to the accounts

continued

## 4 Operating expenses

Operating expenses of £116 million (2016: £105 million) recognised in the IFRS Consolidated statement of comprehensive income include the following amounts:

	2017 £m	2016 <sup>1</sup> £m
Depreciation of property, plant and equipment	2	1
Audit fees	2	2
Staff costs (Note 5)	78	66
Restructuring and redundancy costs	2	5

Expenses incurred in the entities accounted for as investment entity subsidiaries were £1 million (2016: £2 million).

## 5 Staff costs

The table below is prepared in accordance with Companies Act requirements, which is consistent with both the IFRS and the Investment basis.

	2017 £m	2016 <sup>1</sup> £m
Wages and salaries from continuing operations <sup>1</sup>	57	48
Social security costs from continuing operations	10	8
Share-based payment costs (Note 27) from continuing operations	7	7
Pension costs from continuing operations	4	3
<b>Staff costs from continuing operations</b>	<b>78</b>	<b>66</b>
Wages and salaries from discontinued operations <sup>1</sup>	9	13
Social security costs from discontinued operations	1	2
Share-based payment costs (Note 27) from discontinued operations	–	1
Pension costs from discontinued operations	–	1
<b>Staff costs from discontinued operations</b>	<b>10</b>	<b>17</b>
<b>Total staff costs</b>	<b>88</b>	<b>83</b>

The average number of employees during the year was 281 (2016: 276).

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year ended 31 March 2017. For continuing operations these costs are included in operating expenses. The amounts for discontinued operations are included in profit for the year from discontinued operations as shown in Note 31. The table below analyses these costs between fixed and variable elements.

	2017 £m	2016 <sup>1</sup> £m
Fixed staff costs from continuing operations	37	34
Variable staff costs from continuing operations <sup>2</sup>	41	32
<b>Staff costs from continuing operations</b>	<b>78</b>	<b>66</b>
Fixed staff costs from discontinued operations	4	7
Variable staff costs from discontinued operations <sup>2</sup>	6	10
<b>Staff costs from discontinued operations</b>	<b>10</b>	<b>17</b>
<b>Total staff costs</b>	<b>88</b>	<b>83</b>

More detail on this information is included in the Directors' remuneration report on pages 77 to 94.

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 31.

<sup>2</sup> Includes cash bonuses and cash settled share awards

## 6 Information regarding the Group's Auditor

During the year the Group obtained the following services from its Auditor, Ernst & Young LLP. The table below is prepared in accordance with Companies Act requirements, which is consistent with both the IFRS and the Investment basis.

	2017 £m	2016 £m
<b>Audit services</b>		
Statutory audit		
– Company	1.2	1.2
– UK subsidiaries	0.5	0.5
– Overseas subsidiaries	0.2	0.3
	<b>1.9</b>	<b>2.0</b>
<b>Non-audit services</b>		
Other assurance services	0.2	0.1
Investment due diligence	1.0	1.3
Tax services (compliance and advisory services)	0.1	0.1
	<b>3.2</b>	<b>3.5</b>

## 7 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 Consolidated statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt within equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the Consolidated 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.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set off. All deferred tax liabilities are offset against deferred tax assets, where appropriate, in accordance with the provisions of IAS 12.

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.

The main rate of UK corporation tax is to be reduced from 20% to 19% from 1 April 2017, and further to 17% from 1 April 2020. These changes will affect future UK corporate taxes payable and the rate at which deferred tax assets are expected to reverse.

	2017 £m	2016 £m
<b>Current taxes</b>		
Current year	1	4
Prior year	(4)	(1)
<b>Deferred taxes</b>		
Deferred income taxes	–	(1)
<b>Total income tax (credit)/charge in the Consolidated statement of comprehensive income</b>	<b>(3)</b>	<b>2</b>

# Notes to the accounts

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## 7 Income taxes continued

### Reconciliation of income taxes in the Consolidated statement of comprehensive income

The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 20% (2016: 20%), and the differences are explained below:

	2017 £m	2016 £m
Profit before tax	1,524	794
Profit before tax multiplied by rate of corporation tax in the UK of 20% (2016: 20%)	305	159
Effects of:		
Non-taxable capital profits due to UK approved investment trust company status	(309)	(165)
Non-taxable dividend income	(6)	(5)
	(10)	(11)
Other differences between accounting and tax profits:		
Permanent differences – non-deductible items	–	4
Temporary differences on which deferred tax is not recognised	4	2
Overseas countries taxes	(3)	2
Excess unutilised tax losses arising in the period	6	5
<b>Total income tax (credit)/charge in the Consolidated statement of comprehensive income</b>	<b>(3)</b>	<b>2</b>

The affairs of the Group's parent company are directed so as to allow it to meet the requisite conditions to continue to operate as an approved investment trust company for UK tax purposes. An approved investment trust company is a UK investment company which is required to meet certain conditions set out in the UK tax rules to obtain and maintain its tax status. This approval allows certain investment profits of the Company, broadly its capital profits, to be exempt from tax in the UK. Approved investment trust companies are particularly suited for investment vehicles as their tax status allows them to ensure that their shareholders do not suffer double taxation of their returns.

Including a net tax charge of nil (2016: £2 million credit) in the fair valued entities, the Group recognised a total tax credit of £3 million (2016: nil) under the Investment basis.

### Deferred income taxes

	2017 £m	2016 £m
<b>Opening deferred income tax asset</b>		
Tax losses	7	7
Income in accounts taxable in the future	(7)	(7)
Other	3	2
	3	2
<b>Recognised through Consolidated statement of comprehensive income</b>		
Tax losses recognised	1	–
Income in accounts taxable in the future	(1)	–
Other	–	1
	–	1
<b>Recognised within discontinued operations</b>		
Deferred tax asset transferred with discontinued operations	(3)	–
	(3)	–
<b>Closing deferred income tax asset</b>		
Tax losses	8	7
Income in accounts taxable in the future	(8)	(7)
Other	–	3
	–	3

At 31 March 2017, the Group had carried forward tax losses of £1,390 million (31 March 2016: £1,375 million), capital losses of £93 million (31 March 2016: £88 million) and other temporary differences of £94 million (31 March 2016: £69 million). It is uncertain that the Group will generate sufficient or relevant taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 19% (2016: 19%).

## 8 Per share information

The calculation of basic earnings per share is based on the profit attributable to shareholders and the number of basic average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effect of all dilutive share options and awards.

As at 31 March	2017	2016 <sup>*</sup>
<b>Earnings per share (pence)</b>		
Basic earnings per share	169.2	85.6
– of which from continuing operations	159.0	83.0
– of which from discontinued operations	10.2	2.6
<b>Diluted earnings per share</b>	168.4	85.2
– of which from continuing operations	158.3	82.6
– of which from discontinued operations	10.1	2.6
<b>Earnings (£m)</b>		
Profit for the year attributable to equity holders of the Company	1,625	817
– of which from continuing operations	1,527	792
– of which from discontinued operations	98	25

\* Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 31

As at 31 March	2017	2016
<b>Weighted average number of shares in issue</b>		
Ordinary shares	972,734,609	972,569,633
Own shares	(12,580,145)	(18,427,460)
	960,154,464	954,142,173
<b>Effect of dilutive potential ordinary shares</b>		
Share options and awards	4,710,808	4,735,616
<b>Diluted shares</b>	964,865,272	958,877,789

As at 31 March	2017	2016
<b>Net assets per share (£)</b>		
Basic	6.07	4.66
Diluted	6.04	4.63
<b>Net assets (£m)</b>		
Net assets attributable to equity holders of the Company	5,836	4,455

Basic NAV per share is calculated on 961,458,801 shares in issue at 31 March 2017 (31 March 2016: 956,417,466). Diluted NAV per share is calculated on diluted shares of 966,553,549 at 31 March 2017 (31 March 2016: 961,323,047).

## 9 Dividends

	2017 pence per share	2017 £m	2016 pence per share	2016 £m
<b>Declared and paid during the year</b>				
Ordinary shares				
Final dividend	16.0	154	14.0	133
Interim dividend	8.0	76	6.0	57
	24.0	230	20.0	190
<b>Proposed final dividend</b>	18.5	178	16.0	154

The Group's dividend policy was updated in May 2016. The Group will pay a base dividend of 16 pence per share and an additional final dividend which is based on cash realisations, the investment pipeline and the balance sheet at year end. The Group will only pay an additional final dividend if gross debt is less than £1 billion and gearing is less than 20%, to maintain its conservative approach.

# Notes to the accounts

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## 9 Dividends continued

The distribution policy covers the Group's total annual dividend, which is split between a base dividend (16 pence per share) and an additional dividend. The dividend can be paid out of either the capital reserve or the revenue reserve subject to the investment trust rules which state that at least 85% of revenue must be distributed by the Company.

## 10 Investment portfolio

### Accounting policy:

Investments are recognised and de-recognised on the date when their purchase or sale is subject to a relevant contract and the associated risks and rewards have been transferred. 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 investments.

All investments are initially recognised at the fair value of the consideration given and are subsequently measured at fair value, in accordance with the Group's valuation policies.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the Consolidated statement of financial position 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 Consolidated statement of financial position at fair value. Fair value is determined in line with 3i's valuation policy, which is compliant with the fair value guidelines under IFRS and the International Private Equity and Venture Capital (IPEV) Valuation Guidelines, details of which are available in "Portfolio valuation – an explanation" on pages 158 and 159.

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 fair value reduction 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 made where loan notes have nil value.

In accordance with IFRS 10, the proportion of the investment portfolio held by the Group's unconsolidated subsidiaries is 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 11.

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Opening book value	1,540	1,671	1,400	1,416
Additions from continuing operations	291	164	306	95
– of which loan notes with nil value	(10)	(13)	(10)	(13)
Additions from discontinued operations	70	–	18	–
Disposals, repayments and write-offs from continuing operations	(311)	(225)	(307)	(224)
Disposals, repayments and write-offs from discontinued operations	(191)	–	(24)	–
Fair value movement from continuing operations <sup>1</sup>	262	92	256	119
Fair value movement from discontinued operations	3	–	–	–
Other movements and net cash movements from continuing operations	71	(149)	65	7
Other movements and net cash movements from discontinued operations	(19)	–	(19)	–
<b>Closing book value</b>	<b>1,706</b>	<b>1,540</b>	<b>1,685</b>	<b>1,400</b>
Quoted investments	390	297	390	297
Unquoted investments	1,316	1,243	1,295	1,103
<b>Closing book value</b>	<b>1,706</b>	<b>1,540</b>	<b>1,685</b>	<b>1,400</b>

<sup>1</sup> All fair value movements relate to assets held at the end of the period.

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 from continuing operations include £11 million (2016: £35 million) in capitalised interest received by way of loan notes, of which £10 million (2016: £13 million) has been written down in the period to nil, as well as cash advanced to Debt Management warehouses.

## 10 Investment portfolio continued

Included within the Consolidated statement of comprehensive income is £10 million (31 March 2016: £22 million) of interest income which reflects the net additions after write downs noted above, £4 million (31 March 2016: £1 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income is £5 million (31 March 2016: £(1) million).

The profit from discontinued operations includes interest income of £3 million (2016: £4 million).

Other movements and net cash movements include the effects of foreign exchange and £19 million which relates to cash returned (2016: £38 million) from Debt Management warehouses.

Quoted investments are classified as Level 1 in the fair value hierarchy and unquoted investments are classified as Level 3 in the fair value hierarchy, see Note 12 for details.

## 11 Investments in investment entity subsidiaries

### Accounting policy:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit and 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). The fair value can increase or reduce from either cash flows to/from the investment entities or valuation movements in line with the Group's valuation policy.

Substantially all of these entities meet the definition of a Fund under the IPEV guidelines and the fair value and unit of account of these entities is their net asset values. There were no adjustments to the subsidiaries' net asset values in the year.

We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. At each reporting period, we consider whether any additional fair value adjustments need to be made to the net asset values of the investment entity subsidiaries. These adjustments may be required to reflect market participants' considerations about fair value that may include, but are not limited to, liquidity and the portfolio effect of holding multiple investments within the investment entity subsidiary. There was no particular circumstance to indicate that a fair value adjustment was required and after due consideration we concluded that the net asset values were the most appropriate reflection of fair value at 31 March 2017.

	Group 2017 £m	Group 2016 £m
Non-current		
Opening fair value	2,680	2,079
Net cash flow from investment entities	(246)	(206)
Fair value movements on investment entity subsidiaries	1,041	591
Transfer of assets to investment entity subsidiaries	8	216
<b>Closing fair value</b>	<b>3,483</b>	<b>2,680</b>

All investment entities are classified as Level 3 in the fair value hierarchy, see Note 12 for details.

A 5% movement in the closing book value of investments in investment entities would have an impact of £174 million (31 March 2016: £134 million).

### Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no restrictions on the ability to transfer funds from these subsidiaries to the Group except for a cash balance of £56 million held on escrow in an investment entity subsidiary for the carried interest payable.

### Support

3i Group plc continues to provide, where necessary, ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the year, there were net cash flows to the Group as noted in the table above. The Group's current commitments are disclosed in Note 24.

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## 12 Fair values of assets and liabilities

### Accounting policy:

Financial instruments, other than those held at amortised cost, are held at fair value and are designated irrevocably at inception. In particular, 3i designates groups of financial instruments as being at fair value when they are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis.

### (A) Classification

The following tables analyse the Group's assets and liabilities in accordance with the categories of financial instruments in IAS 39:

At 31 March	Group 2017 Designated at fair value through profit and loss £m	Group 2017 Other financial instruments at amortised cost £m	Group 2017 Total £m	Group 2016 Designated at fair value through profit and loss £m	Group 2016 Other financial instruments at amortised cost £m	Group 2016 Total £m
<b>Assets</b>						
Quoted investments	390	–	390	297	–	297
Unquoted investments	1,316	–	1,316	1,243	–	1,243
Investments in investment entities	3,483	–	3,483	2,680	–	2,680
Other financial assets	–	425	425	–	185	185
<b>Total</b>	<b>5,189</b>	<b>425</b>	<b>5,614</b>	<b>4,220</b>	<b>185</b>	<b>4,405</b>
<b>Liabilities</b>						
Loans and borrowings	–	575	575	–	837	837
Other financial liabilities	–	274	274	–	232	232
<b>Total</b>	<b>–</b>	<b>849</b>	<b>849</b>	<b>–</b>	<b>1,069</b>	<b>1,069</b>

At 31 March	Company 2017 Designated at fair value through profit and loss £m	Company 2017 Other financial instruments at amortised cost £m	Company 2017 Total £m	Company 2016 Designated at fair value through profit and loss £m	Company 2016 Other financial instruments at amortised cost £m	Company 2016 Total £m
<b>Assets</b>						
Quoted investments	390	–	390	297	–	297
Unquoted investments	1,295	–	1,295	1,103	–	1,103
Other financial assets	–	384	384	–	113	113
<b>Total</b>	<b>1,685</b>	<b>384</b>	<b>2,069</b>	<b>1,400</b>	<b>113</b>	<b>1,513</b>
<b>Liabilities</b>						
Loans and borrowings	–	575	575	–	837	837
Other financial liabilities	–	522	522	–	419	419
<b>Total</b>	<b>–</b>	<b>1,097</b>	<b>1,097</b>	<b>–</b>	<b>1,256</b>	<b>1,256</b>

Within the Company £3,483 million (31 March 2016: £2,680 million) of the Interest in Group entities is held at fair value.

### (B) Valuation

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. The fair value of the loans and borrowings is £741 million (31 March 2016: £967 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £575 million (31 March 2016: £837 million).

## 12 Fair values of assets and liabilities continued

### Valuation 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)	Fixed rate loan notes
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 IPEV 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 on pages 158 and 159.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2017:

	Group 2017 Level 1 £m	Group 2017 Level 2 £m	Group 2017 Level 3 £m	Group 2017 Total £m	Group 2016 Level 1 £m	Group 2016 Level 2 £m	Group 2016 Level 3 £m	Group 2016 Total £m
Assets								
Quoted investments	390	–	–	390	297	–	–	297
Unquoted investments	–	–	1,316	1,316	–	–	1,243	1,243
Investment in investment entity subsidiaries	–	–	3,483	3,483	–	–	2,680	2,680
<b>Total</b>	<b>390</b>	<b>–</b>	<b>4,799</b>	<b>5,189</b>	<b>297</b>	<b>–</b>	<b>3,923</b>	<b>4,220</b>

The above disclosure only relates to the investment portfolio and the investments in our investment entity subsidiaries. We determine that in the ordinary course of business, the net asset values of an investment entity subsidiary are considered to be the most appropriate to determine fair value. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entity subsidiaries fair valued in accordance with the Group's accounting policies. Note 11 details the Directors' considerations about the fair value of the underlying investment entity subsidiaries.

Movements in the directly held investment portfolio categorised as Level 3 during the year:

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Opening book value	1,243	1,272	1,103	1,082
Additions from continuing operations	213	164	228	95
– of which loan notes with nil value	(10)	(13)	(10)	(13)
Additions from discontinued operations	70	–	18	–
Disposals, repayments and write-offs from continuing operations	(292)	(166)	(288)	(165)
Disposals, repayments and write-offs from discontinued operations	(191)	–	(24)	–
Fair value movement from continuing operations <sup>1</sup>	224	72	218	98
Fair value movement from discontinued operations	3	–	–	–
Other movements and net cash movements from continuing operations	75	(86)	69	6
Other movements and net cash movements from discontinued operations	(19)	–	(19)	–
<b>Closing book value</b>	<b>1,316</b>	<b>1,243</b>	<b>1,295</b>	<b>1,103</b>

1. All fair value movements relate to assets held at the end of the period.

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## 12 Fair values of assets and liabilities continued

Other movements include the effects of foreign exchange.

On a continuing basis, unquoted investments valued using Level 3 inputs also had the following impact on the Consolidated statement of comprehensive income: realised losses over value on disposal of investment of £26 million (2016: £10 million (realised profit)), dividend income of £24 million (2016: £46 million) and foreign exchange gains of £63 million (2016: £40 million).

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2017, classified as Level 3, 33% (31 March 2016: 28%) were valued using a multiple of earnings and the remaining 67% (31 March 2016: 72%) were valued using alternative valuation methodologies.

Assets move between Level 1 and Level 3 primarily due to an increase or decrease in observable market activity related to an input which is primarily when an unquoted equity investment lists on a quoted market exchange.

Valuation multiple – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and then adjusted for factors including liquidity risk, growth potential and relative performance. They are also adjusted to represent our longer term view of performance through the cycle or our exit assumptions. The value weighted average earnings multiple used when valuing the portfolio at 31 March 2017 was 10.23x (2016: 9.83x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2017 decreased by 5%, the investment portfolio would decrease by £18 million (31 March 2016: £19 million) or 1% (31 March 2016: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a negative impact of £224 million (31 March 2016: £173 million) or 6% (31 March 2016: 6%).

If the multiple increased by 5% then the investment portfolio would increase by £16 million (31 March 2016: £19 million) or 1% (31 March 2016: 1%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a positive impact of £215 million (31 March 2016: £172 million) or 5% (31 March 2016: 6%).

Alternative valuation methodologies – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and the inputs that are used, are given in the Portfolio valuation – an explanation section on pages 158 and 159.

Each methodology is used for a proportion of assets by value, and at year end the following techniques were used under an IFRS basis: 41% DCF (31 March 2016: 30%), 4% broker quotes (31 March 2016: 18%), 2% imminent sale (31 March 2016: 11%), 10% industry metric (31 March 2016: 10%) and 10% other (31 March 2016: 3%).

If the value of all of the investments valued under alternative methodologies moved by 5%, this would have an impact on the investment portfolio of £44 million (31 March 2016: £45 million) or 3% (31 March 2016: 3%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have an impact of £7 million (31 March 2016: £9 million) or 0.2% (31 March 2016: 0.3%).

## 13 Carried interest and performance fees

### Accounting policy:

#### Carried interest and performance fees receivable

The Group earns a share of profits ("carried interest and performance fees receivable") from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions.

Carried interest and performance fees receivable include amounts receivable from Private Equity and Infrastructure. Each scheme is separately reviewed at the balance sheet date, and an accrual for carried interest receivable is made once the performance conditions would be achieved if the remaining assets in that fund were realised at fair value.

Fair value of the assets 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.

The performance fee receivable from 3iN is based on 3iN's most recently published NAV subject to a performance hurdle and a high water mark.

#### Carried interest and performance fees payable

The Group offers investment executives the opportunity to participate in the returns from investments subject to certain performance conditions. "Carried interest and performance fees payable" is the term used for amounts payable to executives on these 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 plans. Carried interest payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that plan 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 plan, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual.

The Infrastructure performance fee is accrued when the Group becomes contractually liable to make payments to the team.

Under IFRS 10, where carried interest payable reduces the fair value of an investment entity subsidiary, that movement is recorded through "Fair value movements on investment entity subsidiaries". At 31 March 2017, an additional £538 million of carried interest payable was recognised in the Consolidated statement of financial position of these investment entity subsidiaries (31 March 2016: £299 million).

	Group 2017 £m	Group 2016 £m
Opening carried interest and performance fees receivable	117	88
Carried interest and performance fees receivable recognised in the Consolidated statement of comprehensive income during the year from continuing operations	280	78
Carried interest and performance fees receivable recognised in the Consolidated statement of comprehensive income during the year from discontinued operations	1	-
Cash received in the year from continuing operations	(35)	(52)
Cash received in the year from discontinued operations	(4)	-
Carried interest receivable transferred with discontinued operations	(5)	-
Other movements	9	3
<b>Closing carried interest and performance fees receivable</b>	<b>363</b>	<b>117</b>
<b>Of which: receivable in greater than one year</b>	<b>354</b>	<b>89</b>
	Group 2017 £m	Group 2016 £m
Opening carried interest and performance fees payable	105	85
Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year from continuing operations <sup>1</sup>	98	31
Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year from discontinued operations	-	-
Cash paid in the year from continuing operations	(25)	(13)
Cash paid in the year from discontinued operations	(2)	-
Carried interest payable transferred with discontinued operations	(3)	-
Other movements	(26)	2
<b>Closing carried interest and performance fees payable</b>	<b>147</b>	<b>105</b>
<b>Of which: payable in greater than one year</b>	<b>124</b>	<b>85</b>

<sup>1</sup> The carry payable charge in the table above does not include £10 million (2016: £9 million) associated with the share-based payment charge arising from related carry schemes. The total carried interest and performance fee payable recognised in the Consolidated statement of comprehensive income is £108 million (2016: £38 million). See Note 27 "Share-based payments" for further details.

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## 14 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 Consolidated 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.

Goodwill is recognised on the acquisition of subsidiaries when the cost of acquisition exceeds the net assets acquired. Goodwill is carried at cost less any accumulated impairment, and is assessed annually for impairment.

	Group 2017 £m	Group 2016 £m
<b>Fund management contracts</b>		
Opening cost	33	33
Disposal of discontinued operations	(33)	–
<b>Closing cost</b>	–	33
Opening accumulated amortisation	30	23
Charge for the year within discontinued operations	3	7
Disposal of discontinued operations	(33)	–
<b>Closing accumulated amortisation</b>	–	30
<b>Net book amount</b>	–	3
	Group 2017 £m	Group 2016 £m
<b>Goodwill</b>		
Opening value	9	9
Disposal of discontinued operations	(9)	–
<b>Closing value</b>	–	9
<b>Total intangible assets</b>	–	12

## 15 Other 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 Consolidated statement of comprehensive income.

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Prepayments	2	2	–	–
Other debtors	60	66	24	22
Amounts due from subsidiaries	–	–	1	4
<b>Total other assets</b>	<b>62</b>	<b>68</b>	<b>25</b>	<b>26</b>
<b>Of which: receivable in greater than one year</b>	<b>50</b>	<b>37</b>	<b>21</b>	<b>17</b>

At 31 March 2017, there were no amounts that were past due or impaired for Group or Company (31 March 2016: nil for Group and Company).

## 16 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. Financial liabilities are derecognised when they are extinguished.

	Group 2017 £m	Group 2016 £m
Loans and borrowings are repayable as follows:		
Within one year	–	262
Between the second and fifth year	–	–
After five years	575	575
	<b>575</b>	<b>837</b>

Principal borrowings include:

	Rate	Maturity	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Issued under the £2,000 million note issuance programme</b>						
<b>Fixed rate</b>						
€331 million notes (public issue)	5.625%	2017	–	262	–	262
£200 million notes (public issue)	6.875%	2023	200	200	200	200
€375 million notes (public issue)	5.750%	2032	375	375	375	375
			<b>575</b>	<b>837</b>	<b>575</b>	<b>837</b>
<b>Committed multi-currency facilities</b>						
€329 million	LIBOR+0.60%	2021	–	–	–	–
			–	–	–	–
<b>Total loans and borrowings</b>			<b>575</b>	<b>837</b>	<b>575</b>	<b>837</b>

The maturity of the Company's €329 million (31 March 2016: £350 million) syndicated multi-currency facility was extended by one year to September 2021 in the current financial year, following an agreement with all but one of the participating banks. The €329 million facility has no financial covenants.

During the year, the €331 million outstanding of the Company's €350 million fixed rate notes were repaid in full.

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 £741 million (31 March 2016: £967 million), determined with reference to their published market prices. The loans and borrowings are included in Level 2 of the fair value hierarchy.

In accordance with the FCA Handbook (FUNDS 3.2.2. R and Fund 3.2.6. R), 3i Investments plc, as AIFM of the Company is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with the relevant requirements, leverage for the Group is 115% (31 March 2016: 116%) and the Company is 107% (31 March 2016: 119%) under both the gross method and the commitment method. The leverage for 3i Investments plc is 100% (31 March 2016: 100%) under both the gross method and the commitment method.

Under the Securities Financing Transactions Regulation ("SFTR") and AIFMD, 3i is required to disclose certain information relating to the use of securities financing transactions ("SFTs") and total return swaps. At 31 March 2017, 3i was not party to any transactions involving SFTs or total return swaps.

# Notes to the accounts

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## 17 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 Consolidated statement of comprehensive income for the period.

	Group 2017 Property £m	Group 2017 Redundancy £m	Group 2017 Restructuring £m	Group 2017 Total £m
Opening balance	2	5	1	8
Charge for the year	1	2	–	3
Utilised in the year	–	(4)	(1)	(5)
<b>Closing balance</b>	<b>3</b>	<b>3</b>	<b>–</b>	<b>6</b>
<b>Of which: payable in greater than one year</b>	<b>2</b>	<b>–</b>	<b>–</b>	<b>2</b>

	Group 2016 Property £m	Group 2016 Redundancy £m	Group 2016 Restructuring £m	Group 2016 Total £m
Opening balance	4	1	3	8
Charge for the year	–	5	–	5
Utilised in the year	(2)	(1)	(2)	(5)
<b>Closing balance</b>	<b>2</b>	<b>5</b>	<b>1</b>	<b>8</b>
<b>Of which: payable in greater than one year</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>1</b>

The provision for redundancy relates to staff reductions communicated prior to 31 March 2017. 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 three years. The property provision also includes an estimate of the costs required to restore leased property to its original condition at the end of the lease term.

## 18 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Amounts due to subsidiaries	–	–	477	408
Trade and other payables	127	126	29	9
<b>Total trade and other payables</b>	<b>127</b>	<b>126</b>	<b>506</b>	<b>417</b>
<b>Of which: payable in greater than one year</b>	<b>24</b>	<b>27</b>	<b>–</b>	<b>–</b>

## 19 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.

Issued and fully paid	2017 Number	2017 £m	2016 Number	2016 £m
Ordinary shares of 73 <sup>1</sup> / <sub>2</sub> p				
Opening balance	972,661,444	719	972,453,819	719
Issued on exercise of share options and under employee share plans	146,980	-	207,625	-
<b>Closing balance</b>	<b>972,808,424</b>	<b>719</b>	<b>972,661,444</b>	<b>719</b>

The Company issued 146,980 ordinary shares to the Trustee of the 3i Group Share Incentive Plan for a total cash consideration of £919,720 at various prices from 483.30 pence to 726.17 pence per share (being the market prices on the issue dates which were the last trading day of each month in the year). These shares were ordinary shares with no additional rights attached to them and had a total nominal value of £108,565.

## 20 Own shares

### Accounting policy:

Own shares are recorded by the Group when ordinary shares are acquired by the Company or by The 3i Group Employee Benefit Trust. Own shares are deducted from shareholders' equity. A transfer is made to retained earnings at their weighted average cost in line with the vesting of own shares held for the purposes of share-based payments. The number of own shares held by the Trust and the schemes are described in Note 27.

	2017 £m	2016 £m
Opening cost	54	79
Awards granted and exercised	(16)	(25)
<b>Closing cost</b>	<b>38</b>	<b>54</b>

## 21 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 16. 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 the future development of the business.

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash and deposits	971	997	927	897
Borrowings and derivative financial liabilities	(575)	(837)	(575)	(837)
Net cash <sup>1</sup>	396	160	352	60
Total equity	5,836	4,455	5,441	4,002
Gearing (net debt/total equity)	nil	nil	nil	nil

<sup>1</sup> The above numbers have been prepared under IFRS and differ from the investment basis as detailed in the Strategic report.

### 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 (apart from those shown in Note 11) have been identified 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 operates with a significant regulatory capital surplus. The Group's Pillar 3 disclosure document can be found on [www.3i.com](http://www.3i.com).

# Notes to the accounts

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## 22 Interests in Group entities

### Accounting policy:

The Company has controlling equity interests in, and makes loans to, both consolidated and fair valued Group entities. Investment entities are all held at fair value and all other subsidiaries are held at cost less impairment in the Company's accounts. The net assets of these entities are deemed to represent fair value.

	Company 2017 Equity investments £m	Company 2017 Loans and receivables £m	Company 2017 Total £m
Opening book value	1,240	1,608	2,848
Additions	93	405	498
Share of profits	–	373	373
Disposals and repayments	(12)	(1,139)	(1,151)
Fair value movements	818	63	881
Exchange movements	–	93	93
<b>Closing book value</b>	<b>2,139</b>	<b>1,403</b>	<b>3,542</b>

	Company 2016 Equity investments £m	Company 2016 Loans and receivables £m	Company 2016 Total £m
Opening book value	951	1,450	2,401
Additions	14	487	501
Share of profits	–	420	420
Disposals and repayments	(104)	(449)	(553)
Fair value movements	379	(401)	(22)
Exchange movements	–	101	101
<b>Closing book value</b>	<b>1,240</b>	<b>1,608</b>	<b>2,848</b>

Details of significant Group entities are given in Note 30.

## 23 Operating leases

### Accounting policy:

The Group leases its office space. Future minimum payments due under non-cancellable operating lease rentals are shown in the table below. The parent company held no operating leases during the year.

### Leases as lessee

	Group 2017 £m	Group 2016 £m
Less than one year	7	7
Between one and five years	19	19
More than five years	13	15
	<b>39</b>	<b>41</b>

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2017, £5 million (2016: £5 million) was recognised as an expense in the Consolidated statement of comprehensive income in respect of operating leases. There was no impact (2016: nil) on the Consolidated statement of comprehensive income in respect of subleases, as the difference between future lease and sublease obligations was already provided for in prior years (refer to Note 17). The total future sublease payments expected to be received under non-cancellable subleases are £3 million (2016: £4 million).

## 24 Commitments

### Accounting policy:

Commitments represent amounts the Group has contractually committed to pay third parties but do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact the Group's financial results for the year.

At 31 March 2017 the Group had commitments of £395 million (31 March 2016: £90 million) as follows:

	Group 2017 due within 1 year £m	Group 2017 due between 2 and 5 years £m	Group 2017 due over 5 years £m	Group 2017 Total £m	Group 2016 due within 1 year £m	Group 2016 due between 2 and 5 years £m	Group 2016 due over 5 years £m	Group 2016 Total £m
Equity and loan investments	393	2	–	395	90	–	–	90

	Company 2017 due within 1 year £m	Company 2017 due between 2 and 5 years £m	Company 2017 due over 5 years £m	Company 2017 Total £m	Company 2016 due within 1 year £m	Company 2016 due between 2 and 5 years £m	Company 2016 due over 5 years £m	Company 2016 Total £m
Equity and loan investments	190	2	–	192	68	–	–	68

The amounts shown above include £272 million and £109 million of estimated commitments made by the Group and Company respectively, to invest in two Private Equity companies. They also include £82 million of commitments made by the Group and Company for Infrastructure funds.

The Group and Company are contractually committed to these investments, however they were not completed prior to 31 March 2017. *These commitments are due within one year and are subject to change prior to investment completion.*

Operating lease commitments are detailed in Note 23.

## 25 Contingent liabilities

### Accounting policy:

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the Consolidated statement of financial position.

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 the assets held by this subsidiary at 31 March 2017 was £265 million (31 March 2016: £187 million) of which £53 million relates to the investment made as part of 3iN's capital raise in June 2016.

At 31 March 2017, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

# Notes to the accounts

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## 26 Retirement benefits

### Accounting policy:

Payments to defined contribution retirement benefit plans are charged to the Consolidated 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 Consolidated 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 Consolidated statement of financial position 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 Consolidated statement of financial position 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 Consolidated statement of comprehensive income is £3 million (2016: £3 million), which represents the contributions paid to these defined contribution 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 and powers are determined by the Plan's documentation.

Membership of 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 is 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.

The valuation of the Plan has been updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2017.

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 (31 March 2016: £1 million) and the future liability calculated by German and Spanish actuaries is £23 million (2016: £21 million). The amounts recognised in the Consolidated statement of comprehensive income for the year and other comprehensive income for these schemes are a £1 million expense (2016: £1 million expense) and a nil gain (2016: £2 million gain), respectively.

## 26 Retirement benefits continued

The amount recognised in the Consolidated statement of financial position in respect of the Group's defined benefit plans is as follows:

	2017 £m	2016 £m
Present value of funded obligations	869	789
Fair value of the Plan assets	(1,055)	(992)
Asset restriction	65	71
Retirement benefit surplus in respect of the Plan	(121)	(132)
Retirement benefit deficit in respect of other defined benefit schemes	22	20

A retirement benefit surplus is recognised in respect of the Plan on the basis that the Group is entitled to a refund of any remaining surplus once all benefits have been settled in the expected course. The asset restriction relates to tax that would be deducted at source in respect of a refund of the Plan surplus.

The amounts recognised in the Consolidated statement of comprehensive income in respect of the Plan are as follows:

	2017 £m	2016 £m
<b>Included in interest payable</b>		
Interest income on net defined benefit asset	(3)	(3)
<b>Included in other income</b>		
Reduction in past service cost	(6)	–
<b>Included in other comprehensive income</b>		
Re-measurement loss	30	12
Asset restriction	(8)	(4)
<b>Total re-measurement loss and asset restriction</b>	<b>22</b>	<b>8</b>
<b>Total</b>	<b>13</b>	<b>5</b>

The total re-measurement loss recognised in other comprehensive income is £22 million (2016: £6 million loss). There were no gains on our overseas schemes (2016: £2 million loss), as noted above.

Changes in the present value of the defined benefit obligation were as follows:

	2017 £m	2016 £m
Opening defined benefit obligation	789	846
Interest on Plan liabilities	26	27
Re-measurement loss/(gain):		
– loss from change in demographic assumptions	–	8
– loss/(gain) from change in financial assumptions	210	(16)
– experience gains	(31)	(5)
Benefits paid	(119)	(71)
Reduction in past service costs	(6)	–
<b>Closing defined benefit obligation</b>	<b>869</b>	<b>789</b>

Changes in the fair value of the Plan assets were as follows:

	2017 £m	2016 £m
Opening fair value of the Plan assets	992	1,055
Interest on Plan assets	32	32
Actual return on Plan assets less interest on Plan assets	149	(25)
Employer contributions	1	1
Benefits paid	(119)	(71)
<b>Closing fair value of the Plan assets</b>	<b>1,055</b>	<b>992</b>

# Notes to the accounts

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## 26 Retirement benefits continued

Contributions paid to the Plan are related party transactions as defined by IAS 24 Related party transactions.

The fair value of the Plan's assets at the balance sheet date is as follows:

	2017 £m	2016 £m
Equities	237	204
Corporate bonds	150	174
Gilts	474	594
Annuity contract	182	–
Other	12	20
	<b>1,055</b>	<b>992</b>

The Plan's assets are predominantly invested with Legal and General Investment Management in quoted and liquid funds. The annuity contract is provided by Pension Insurance Corporation as a result of a buy-in transaction completed by the 3i Pension Plan Trustees during the year. The buy-in, which is a bulk annuity purchase, reduces member longevity risk for those pensioners covered while improving investment returns over the assets used to fund the purchase. This contract provides an exact match for the member benefits insured and covers two in five pensioners. The fair value of the insurance policy is calculated using the same assumptions and methodology as used to calculate the value of the pension liability as at 31 March 2017.

The Plan's 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:

	2017 £m	2016 £m
Opening asset restriction	71	73
Interest on asset restriction	2	2
Re-measurements	(8)	(4)
<b>Closing asset restriction</b>	<b>65</b>	<b>71</b>

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows:

	2017	2016
Discount rate	2.5%	3.5%
Expected rate of salary increases	5.8%	5.7%
Expected rate of pension increases	0% to 3.4%	3.2% to 3.4%
Retail Price Index (RPI) inflation	3.3%	3.2%
Consumer Price Index (CPI) inflation	2.3%	2.2%

In addition, it is assumed that members exchange 25% of pension for lump sum at retirement on the conversion terms in place at 31 March 2017 with an allowance for the terms to increase in future. The duration of the Plan's defined benefit obligation at the accounting date was around 22 years.

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2017 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% (unchanged from 31 March 2016). The life expectancy of a male member reaching age 60 in 2037 (31 March 2016: 2036) is projected to be 33.7 (31 March 2016: 33.6) years compared to 31.4 (31 March 2016: 31.3) years for someone reaching 60 in 2017.

## 26 Retirement benefits continued

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Impact on retirement benefit surplus	
		2017	2016
Discount rate	Decrease by 0.1%	<b>Decrease by £10 million</b>	Decrease by £10 million
Retail Price Index (RPI) inflation	Increase by 0.1%	<b>Decrease by £7 million</b>	Decrease by £7 million
Life expectancy	Increase by 1 year	<b>Decrease by £13 million</b>	Decrease by £15 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:

<b>Asset volatility</b>	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 and during FY2017 it purchased an annuity contract that is an exact match for a proportion of the Plan's liabilities.
<b>Changes in bond yields</b>	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.
<b>Inflation risk</b>	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.
<b>Life expectancy</b>	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 results of the triennial actuarial funding valuation as at 30 June 2013 showed that the Plan had an actuarial surplus of £1 million at 30 June 2013 and as a result the Group was not required to make contributions to the Plan in respect of that valuation. The contingent asset arrangement entered into during FY2013, details of which are provided in Note 25, remains in place. The next triennial actuarial funding valuation exercise, based on the financial position of the Plan as at 30 June 2016 commenced during FY2017. The exercise is required to be completed by 30 September 2017.

During the early part of FY2017 the Group finalised its programme, launched in the prior year, to offer the Plan's members flexibility in how they take their pension benefits.

# Notes to the accounts

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## 27 Share-based payments

### Accounting policy:

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 Consolidated statement of comprehensive income over the period that employees provide services, generally the period between the start of performance period and the vesting date of the shares. The number of share awards expected to vest takes into account the likelihood that performance and services conditions included in the terms of the award will be met.

Fair value is measured by use of an appropriate model which takes into account the exercise price of the option (if any), the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and any other relevant factors. 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 year. The movement in cumulative charges since the previous balance sheet is recognised in the Consolidated statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash-settled share-based payment transactions are recognised in the Consolidated 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 is 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 Consolidated statement of comprehensive income is shown below:

	2017 £m	2016 £m
Share awards included as operating expenses <sup>2</sup>	11	10
Share awards included as carried interest <sup>1</sup>	7	5
Cash-settled share awards included within discontinued operations	2	–
Cash-settled share awards <sup>3</sup>	5	4
	<b>25</b>	<b>19</b>

<sup>1</sup> Credited to equity.

<sup>2</sup> For the year ended 31 March 2017, £7 million is shown in Note 5 (2016: £8 million) and is net of a £4 million release from the bonus accrual

<sup>3</sup> Recognised in operating expenses and/or carried interest

The features of the Group's share schemes for Executive Directors are described in the Report of the Board on Directors' remuneration on pages 88 and 90. To ensure that employees' interests are aligned with shareholders, a significant amount of variable compensation paid to higher earning employees is deferred into shares that vest over a number of years. 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 2017 is £6 million (31 March 2016: £4 million).

For the share-based awards granted during the year, the weighted average fair value of those options at 31 March 2017 was 436 pence (31 March 2016: 457 pence).

The main assumptions for the valuation of certain share-based awards with market conditions attached comprised:

Valuation methodology	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend yield	Risk free interest rate
Binomial and Monte Carlo models	548p	–	26%	3	–	0.10%
Black Scholes	555p	–	31%	0.5–4	4.0%	1.08%

Expected volatility was determined by reviewing share price volatility for the expected life of each option up to the date of grant.

## 27 Share-based payments continued

### Movements in share awards

The number of share-based awards outstanding are as follows:

	2017 Number	2016 Number
Outstanding at the start of the year	11,653,772	16,016,623
Granted	3,929,354	2,777,789
Exercised	(5,360,537)	(6,744,192)
Lapsed	(108,714)	(396,448)
Outstanding at the end of year	10,113,875	11,653,772
Weighted average remaining contractual life of awards outstanding in years	2.8	2.9
Exercisable at the end of the year	109,266	216,479

The weighted average market price at the date of exercise was 574 pence (2016: 545 pence).

### Holdings of 3i Group plc shares

The Group has established an employee benefit trust and the total number of 3i Group plc shares held in this trust at 31 March 2017 was 11 million (31 March 2016: 16 million). Dividend rights have been waived on these shares. The total market value of the shares held in trust based on the year end share price of 750 pence (31 March 2016: 456 pence) was £85 million (31 March 2016: £74 million).

## 28 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 on pages 44 to 53. 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. The risk management processes of the Company are aligned with those of the Group and both the Group and the Company share the same financial risks.

### Financial risks

#### Concentration risk

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 limits for asset allocation, it does have a maximum exposure limit for the cost of new investments. This is detailed in the Investment policy on page 95 in the Corporate Governance section. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in the Segmental analysis in Note 1 and in the 20 large investments table on pages 156 and 157.

#### Credit risk

The Group is subject to credit risk on its unquoted investments, derivatives, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with 85% of the Group's surplus cash held on demand in AAA rated money market funds and 4% held in deposit accounts with an initial notice period of greater than 90 days. The balance is held on short-term deposit with banks with a credit rating of A- or higher.

The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. Further detail can be found in the Price risk – market fluctuations disclosure in this Note and the sensitivity disclosure to changes in the valuation assumptions is provided in the valuation section of Note 12.

#### Liquidity risk

The liquidity outlook is monitored monthly by management and regularly by the Board in the context of periodic 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 pages 51 and 53 of the Risk section. The table on the next page analyses the maturity of the Group's gross contractual liabilities.

# Notes to the accounts

continued

## 28 Financial risk management continued

### Financial liabilities

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than over 5 years £m	Total £m
<b>As at 31 March 2017</b>					
<b>Gross commitments:</b>					
Fixed loan notes	35	35	106	825	1,001
Committed multi-currency facility	1	1	2	–	4
Carried interest and performance fees payable within one year	23	–	–	–	23
Trade and other payables	103	2	1	21	127
<b>Total</b>	<b>162</b>	<b>38</b>	<b>109</b>	<b>846</b>	<b>1,155</b>

Gross commitments include principal amounts and interest and fees where relevant. Carried interest and performance fees payable greater than one year of £124 million (31 March 2016: £85 million) have no stated maturity as they result from investment related transactions and it is not possible to identify with certainty the timing of when the investments will be sold. Carried interest and performance fees payable greater than one year are shown after discounting which has an impact of £4 million (31 March 2016: £6 million).

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than over 5 years £m	Total £m
<b>As at 31 March 2016</b>					
<b>Gross commitments:</b>					
Fixed loan notes	312	35	106	861	1,314
Committed multi-currency facility	1	1	2	–	4
Carried interest and performance fees payable within one year	20	–	–	–	20
Acquisition related earn-out charges payable	1	–	–	–	1
Trade and other payables	99	–	–	27	126
<b>Total</b>	<b>433</b>	<b>36</b>	<b>108</b>	<b>888</b>	<b>1,465</b>

### Forward foreign exchange contracts

At 31 March 2017, there were no forward foreign exchange contracts in place (31 March 2016: none).

The Company disclosures are the same as those for the Group with the following exceptions; carried interest and performance fees payable within one year is nil (31 March 2016: nil) and trade and other payables within one year is £506 million (31 March 2016: £417 million).

### 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

On the liability side, the direct impact of a movement in interest rates is limited to any drawings under the committed multi-currency facility as the Group's outstanding debt is fixed rate. The sensitivities below arise principally from changes in interest receivable on cash and deposit.

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 £10 million (2016: £10 million increase) for the Group and £9 million income (2016: £9 million) for the Company. In addition, the Group and Company have indirect exposure to interest rates through changes to the financial performance and valuation of portfolio companies and valuation of residual debt management investments caused by interest rate fluctuations.

#### (ii) Currency risk

The Group's net assets in euro, US dollar, Danish krone, Indian rupee and all other currencies combined are shown in the table below. This sensitivity analysis is performed based on the sensitivity of the Group's net assets to movements in foreign currency exchange rates assuming a 10% movement in exchange rates against sterling. The sensitivity of the Company to foreign exchange risk is not materially different from the Group.

## 28 Financial risk management continued

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 33.

As at 31 March 2017	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Indian rupee £m	Other £m	Total £m
Net assets	1,420	3,373	751	147	53	92	5,836
<b>Sensitivity analysis</b>							
Assuming a 10% movement in exchange rates against sterling:							
Impact on net assets	n/a	337	75	15	5	9	441

As at 31 March 2016	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Indian rupee £m	Other £m	Total £m
Net assets	1,364	2,169	726	–	53	143	4,455
<b>Sensitivity analysis</b>							
Assuming a 10% movement in exchange rates against sterling:							
Impact on net assets	n/a	217	73	–	5	14	309

### (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 divestment 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 Consolidated statement of comprehensive income:

Group	Quoted investment £m	Unquoted investment £m	Investment in investment entity subsidiaries £m	Total £m
At 31 March 2017	59	197	522	778
At 31 March 2016	45	186	402	633

Company	Quoted investment £m	Unquoted investment £m	Total £m
At 31 March 2017	59	194	253
At 31 March 2016	45	165	210

# Notes to the accounts

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## 29 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.

### 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Statement of comprehensive income				
Carried interest receivable	276	53	276	53
Fees receivable from external funds	26	28	–	–

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Statement of financial position				
Carried interest receivable	356	87	356	87

#### Investments

The Group makes investments in the equity of unquoted and quoted investments where it does not have control but may be able to participate in the financial and operating policies of that company. IFRS presumes that it is possible to exert significant influence when the equity holding is greater than 20%. The Group has taken the investment entity exception as permitted by IFRS 10 and has not equity accounted for these investments, in accordance with IAS 28, but they are related parties. The total amounts included for investments where the Group has significant influence but not control are as follows:

	Group 2017 £m	Group 2016 <sup>1</sup> £m	Company 2017 £m	Company 2016 <sup>1</sup> £m
Statement of comprehensive income				
Realised profit over value on the disposal of investments	–	4	–	4
Unrealised profits on the revaluation of investments	57	(21)	51	(13)
Portfolio income	17	12	7	7
Profit for the year from discontinued operations	21	4	4	3

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Statement of financial position				
Unquoted investments	429	480	407	341

<sup>1</sup> Comparatives for the year ended 31 March 2016 have been re-presented to reflect the classification of the Group's Debt Management business which was sold on 3 March 2017 as discontinued operations. See Note 31

From time to time, transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or refinancing of an investee company. These transactions are made on an arm's length basis.

## 29 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
<b>Statement of comprehensive income</b>				
Realised profit over value on the disposal of investments	–	2	–	2
Unrealised profits on the revaluation of investments	38	20	38	20
Fees receivable from external funds	21	12	–	–
Performance fees receivable	4	20	–	–
Dividends	14	12	14	12
<b>Statement of financial position</b>				
Quoted equity investments	390	277	390	277
Performance fees receivable	4	20	–	–

The Group participated in 3iN's capital raise in June 2016 and invested £131 million at the offer price of 165 pence per share to maintain its 34% stake. £53 million of this is held by a wholly owned investment entity of the Group, as detailed in Note 25, with the balance held by the Company, 3i Group plc.

### 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.

### 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 £13 million (2016: £13 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 £89 million (2016: £69 million) for this service.

### 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 2017 £m	Group 2016 £m
<b>Statement of comprehensive income</b>		
Salaries, fees, supplements and benefits in kind	5	5
Cash bonuses	4	3
Carried interest and performance fees payable	43	21
Share-based payments	12	6
Termination payments	1	–
Acquisition related earn-out charges	–	1
<b>Statement of financial position</b>		
Bonuses and share-based payments	14	16
Carried interest and performance fees payable within one year	4	12
Carried interest and performance fees payable after one year	68	33

No carried interest was paid or accrued for the Executive or non-executive Directors (2016: nil). Carried interest paid in the year to other key management personnel was £12 million (2016: £3 million). Acquisition related earn-out charges paid in the year to key management personnel was £1 million (2016: £19 million).

# Notes to the accounts

continued

## 29 Related parties and interests in other entities continued

### Unconsolidated structured entities

The application of IFRS 12 requires 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 and Infrastructure business lines. These structured entities fall into two categories, namely CLOs and closed end limited partnerships (Private Equity and Infrastructure funds).

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 used to manage CLO vehicles as part of its Debt Management business. These funds predominantly invested in senior secured loans and are financed by investors seeking credit rated, structured, investment returns.

The Group, as the then manager, invested into the equity tranche of these funds and has retained the stakes that were not sold to Investcorp. These positions 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			Maximum loss exposure £m
	Assets £m	Liabilities £m	Net £m	
Unquoted investments	49	–	49	49
<b>Total</b>	<b>49</b>	<b>–</b>	<b>49</b>	<b>49</b>

At 31 March 2016, the carrying amount of assets and maximum loss exposure of unquoted investments was £154 million. The carrying amount of liabilities was nil.

The Group earned distributions of £31 million (2016: £31 million) and fee income of £21 million (2016: £33 million) during the year from CLO structured entities. This includes continuing and discontinued operations.

### 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			Maximum loss exposure £m
	Assets £m	Liabilities £m	Net £m	
Carried interest receivable	356	–	356	356
<b>Total</b>	<b>356</b>	<b>–</b>	<b>356</b>	<b>356</b>

At 31 March 2016, the carrying amount of assets and maximum loss exposure of carried interest receivable was £87 million. The carrying amount of liabilities was nil.

At 31 March 2017, the total assets under management relating to these entities was £3.0 billion (31 March 2016: £2.7 billion). The Group earned fee income of £26 million (2016: £28 million) and carried interest of £276 million (2016: £53 million) in the year.

## 29 Related parties and interests in other entities continued

### Regulatory information relating to fees

3i Investments plc acts as the AIFM of 3i Group plc. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

**Transaction fees:** 3i companies receive monitoring and directors' fees from portfolio companies. The amount is agreed with the portfolio company at the time of the investment but may be re-negotiated. Where applicable, 3i may also receive fees on the completion of transactions such as acquisitions, refinancings or syndications either from the portfolio company or a co-investor. Transaction fees paid to 3i are included in portfolio income.

**Payments for third-party services:** 3i companies may retain the services of third-party consultants; for example for an independent director or other investment management specialist expertise. The amount paid varies in accordance with the nature of the service and the length of the service period and is usually, but not always, paid/reimbursed by the portfolio companies. The payment may involve a flat fee, retainer or success fee. Such payments, where borne by 3i companies, are usually included in portfolio income.

**Payments for services from 3i companies:** One 3i company may provide investment advisory services to another 3i company and receive payment for such services.

### 30 Subsidiaries and related undertakings

IFRS 10 deems control, as opposed to equity ownership, as the key factor when determining what meets the definition of a subsidiary. If a group is exposed to, or has rights to, variable returns from its involvement with the investee, then under IFRS 10 it has control. This is inconsistent with the UK's Companies Act 2006, where voting rights being greater than 50% is the key factor when identifying subsidiaries.

Under IFRS 10, 30 of the Group's portfolio company investments are considered to be accounting subsidiaries. As the Group applies the investment entity exception available under IFRS 10, these investee companies are classified as investment entity subsidiaries.

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings. Related undertakings are subsidiaries, joint ventures, associates and other significant holdings. In this context, significant means either a shareholding greater than or equal to 20% of the nominal value of any class of shares or a book value greater than 20% of the Group's assets.

The Company's related undertakings at 31 March 2017 are listed below.

Description	Holding/share class	Footnote
<b>Subsidiaries</b>		
3i Holdings plc	100% ordinary shares	1
3i Investments plc	100% ordinary shares	1
3i plc	100% ordinary shares	1
3i International Holdings	100% ordinary shares	1
Investors in Industry plc	100% ordinary shares/ cumulative preference shares	1
Mayflower GP Limited	100% ordinary shares	1
3i Trustee Company Limited	100% ordinary shares	1
3i Assets LLP	100% partnership interest	1
3i General Partner No 1 Limited	100% ordinary shares	1
3i Corporation	100% ordinary shares	2
3i DM US (SLF) LP	100% partnership interest	3
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	100% ordinary shares	4
Gardens Nominees Limited	100% ordinary shares	1
Gardens Pension Trustees Limited	100% ordinary shares	1
3i DM GIF 2015 GP Limited	100% ordinary shares	1
3i DM Europe Limited	100% ordinary shares	1
Palace Street 1 Limited	100% ordinary shares	1
3i Europe plc	100% ordinary shares	1
3i Nominees Limited	100% ordinary shares	1
3i 96 Partners Nominees Limited	100% ordinary shares	1
3i PVL Nominees Limited	100% ordinary shares	1
3i EF3 GPA Limited	100% ordinary shares	1
3i EF3 GPB Limited	100% ordinary shares	1

# Notes to the accounts

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## 30 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
3i European Operational Projects GP LLP	100% partnership interest	1
3i Group Investments LP	100% partnership interest	1
3i AP Tech Nominees Limited	100% ordinary shares	1
3i AP Tech GP Limited	100% ordinary shares	1
3i EF3 Nominees B Limited	100% ordinary shares	1
3i EF3 Nominees A Limited	100% ordinary shares	1
Mayflower LP	100% partnership interest	5
3i Osprey GP Limited	100% ordinary shares	1
3i Investments GP Limited	100% ordinary shares	1
3i IIF GP Limited	100% ordinary shares	5
3i Nordic plc	100% ordinary shares	1
3i GP 2004 Limited	100% ordinary shares	3
3i Networks Finland Limited	100% ordinary shares	1
3i Ademas LP	100% partnership interest	1
The 3i Group Employee Trust	n/a	6
3i International Services plc	100% ordinary shares	1
3i EFIV Nominees Limited	100% ordinary shares	1
3i EFV Nominees A Limited	100% ordinary shares	1
3i EFV Nominees B Limited	100% ordinary shares	1
3i Technology Corporation	100% ordinary shares	2
3i India Private Limited	100% ordinary shares	7
3i Sports Media (Mauritius) Limited	90% ordinary shares	8
3i Asia Limited	100% ordinary shares	8
3i EFV GP Limited	100% ordinary shares	1
3i EF4 GP Limited	100% ordinary shares	1
3i srl	100% ordinary shares	9
3i Infraprojects (Mauritius) Limited	100% ordinary shares	8
3i Research (Mauritius) Limited	100% ordinary shares	8
IIF SLP GP Limited	100% ordinary shares	3
3i Buyouts 2010 A LP	99% partnership interest	1
3i Buyouts 2010 B LP	98% partnership interest	1
3i Buyouts 2010 C LP	97% partnership interest	1
GP CCC 2010 Limited	100% ordinary shares	3
3i GC GP Limited	100% ordinary shares	1
3i GP 2010 Limited	100% ordinary shares	1
3i Growth Capital A LP	100% partnership interest	1
3i Growth Capital G LP	100% partnership interest	1
3i Growth Capital (USA) D L.P.	100% partnership interest	5
3i Growth 2010 LP	85% partnership interest	1
3i Growth USA 2010 L.P.	83% partnership interest	5
3i Growth Capital (USA) P L.P.	100% partnership interest	5
3i GC Holdings Ref 2 s.a.r.l	50% ordinary shares	10
Strategic Investments FM (Mauritius) Alpha Limited	70% ordinary shares	8
3i GC Nominees A Limited	100% ordinary shares	1
3i GC Nominees B Limited	100% ordinary shares	1
Ebrain 1 Limited	100% ordinary shares	43
Ebrain 2 Limited	100% ordinary shares	43
Ebrain 3 Limited	100% ordinary shares	43
3i India Infrastructure B LP	99% partnership interest	1
3i Pan European Growth Capital 2005-06 LP	80% partnership interest	1

### 30 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
3i Asia Pacific 2004-06 LP	100% partnership interest	1
3i UK Private Equity 2004-06 LP	80% partnership interest	1
3i Pan European Buyouts 2004-06 LP	79% partnership interest	1
3i 2004 GmbH & Co KG	100% partnership interest	4
3i General Partner 2004 GmbH	100% ordinary shares	4
Pan European Buyouts Co-invest 2006-08 LP	100% partnership interest	1
Pan Euro Buyouts (Dutch) A Co-invest 2006-08 LP	100% partnership interest	1
3i US Growth Partners LP	94% partnership interest	5
3i US Growth Corporation	100% ordinary shares	11
Global Growth Co-invest 2006-08 LP	100% partnership interest	1
Pan European Growth Co-invest 2006-08 LP	100% partnership interest	1
Pan European Growth (Dutch) A Co-invest 2006-08 LP	100% partnership interest	1
Asia Growth Co-invest 2006-08 LP	100% partnership interest	1
3i GP 2006-08 Limited	100% ordinary shares	1
Pan European Buyouts (Nordic) Co-invest 2006-08 LP	100% partnership interest	1
Pan European Growth (Nordic) Co-invest 2006-08 LP	100% partnership interest	1
3i Infocomm Limited	75% ordinary shares	12
3i Buyouts 08-10 A LP	99% partnership interest	1
3i Buyouts 08-10 B LP	98% partnership interest	1
3i Buyouts 08-10 C LP	97% partnership interest	1
3i Growth 08-10 LP	99% partnership interest	1
GP CCC 08-10 Limited	100% ordinary shares	3
3i GP 08-10 Limited	100% ordinary shares	1
3i Growth (Europe) 08-10 LP	99% partnership interest	1
3i PE 2013-16A LP	100% partnership interest	1
3i PE 2013-16C LP	100% partnership interest	1
3i GP 2013 Ltd	100% ordinary shares	1
GP 2013 Ltd	100% ordinary shares	3
3i BIFM Investments Limited	100% ordinary shares	1
BIIF GP Limited	100% ordinary shares	1
BEIF II Limited	100% ordinary shares	1
BAM General Partner Limited	100% ordinary shares	1
BEIF Management Limited	100% ordinary shares	1
3i BIIF GP LLP	100% partnership interest	1
3i BEIF II GP LLP	100% partnership interest	1
3i PE 2016-19 A LP	100% partnership interest	1
3i PE 2016-19 B LP	100% partnership interest	1
3i Managed Infrastructure Acquisitions GP (2017) LLP	100% partnership interest	1
3i Managed Infrastructure Acquisitions GP Limited	100% ordinary shares	1
3i 2016 GmbH & Co. KG	100% ordinary shares	4
Retina Midco BV	100% ordinary shares	13
Retina Bidco B.V	100% ordinary shares	13
Retina Holdco BV	100% ordinary shares	13
Dasar Holding GmbH	100% ordinary shares	14
Blitz F15-496 GmbH	100% ordinary shares	14
Blitz 16-811 GmbH	100% ordinary shares	14
Blitz 16-812 GmbH	100% ordinary shares	14
3i Managed Infrastructure Acquisitions LP	100% partnership interest	1

# Notes to the accounts

continued

## 30 Subsidiaries and related undertakings continued

Description	Holding/share class	Footnote
3i European Operational Projects S.C.S.P	100% partnership interest	10
3i European Operational Projects GP s.a.r.l	100% ordinary shares	10
US Growth Co-Invest 2006-08 LP	72% partnership interest	1
3i GP 2016 Limited	100% ordinary shares	1
GP 2016 Limited	100% ordinary shares	3
3i US Holdings LLC	100% ordinary shares	2
3i European Operational Projects Limited	100% ordinary shares	1
<b>Associates</b>		
3i Growth Carry A LP	25% partnership interest	3
3i Growth Carry B LP	25% partnership interest	3
Moon Topco GmbH	49% ordinary shares	15
Layout Holdco A/S	49% ordinary shares	16
Fuel Holdco SA	43% ordinary shares	10
Boketto Holdco Limited	47% ordinary shares	17
Klara HoldCo S.A.	47% ordinary shares	10
Colorado Holdco Limited	48% ordinary shares	18
Shield Holdco LLC	49% ordinary shares	19
Q Holdco Ltd	43% ordinary shares	20
3i Infrastructure plc	34% ordinary shares	21
ACR Capital Holdings Pte Ltd	25% ordinary shares	22
Peer Holding 1 BV	43% ordinary shares	23
AES Engineering Ltd	40% ordinary shares	24
Chrysanthes 1 S.a.r.l	49% ordinary shares	10
Mito Holdings S.a.r.l	47% ordinary shares	10
Carter Thermal Industries Limited	34% ordinary shares	25
Echezeaux Investissement SA	40% ordinary shares	10
Ginger Holding GmbH	49% ordinary shares	26
Sortifandus, SL	44% ordinary shares	27
Hobbs Fashion Holdings Limited	47% ordinary shares	28
Harper Topco Limited	42% ordinary shares	29
MDY Healthcare Limited	27% ordinary shares	30
Mémora S.A	38% ordinary shares	10
MKM Building Supplies Ltd	28% ordinary shares	31
OneMed AB	29% ordinary shares	32
Orange County Fundo de Investimento EM Participacoes	39% equity units	33
Permal Gloucester Limited	32% ordinary shares	34
Scandferries Holding UK Ltd	48% ordinary shares	35
SLR Management Limited	21% ordinary shares	36
Tato Holdings Limited	27% ordinary shares	37
Pearl Group Limited	37% ordinary shares	38
Lilas 1 SAS	49% ordinary shares	39
Indiareit Offshore Fund (Mauritius)	20% partnership interest	40
Nimbus Communications Ltd	30% ordinary shares	41
Artisan du Luxe Holding Limited	26% ordinary shares	42
Asia Strategic MedTech Holdings (Mauritius) Limited	36% ordinary shares	8
<b>Joint ventures</b>		
The Group has no interest in any joint ventures		

### 30 Subsidiaries and related undertakings continued

The 20 large portfolio companies by fair value are detailed on pages 156 and 157. The combination of the table above and that on pages 156 and 157 is deemed by the Directors to fulfil the requirements under IFRS 12 on the disclosure of material subsidiaries.

Footnote	Address
1	16 Palace Street, London, SW1E 5JD, UK
2	1 Grand Central Place East, 42nd Street, Suite 4100 New York, NY 10165, USA
3	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, UK
4	OpfernTurm, Bockenheimer Landstrasse 2-4, 60306 Frankfurt am Main, Germany
5	Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey
6	Computershare, Queensway House, Hilgrove Street, St Helier, JE1 1ES, Jersey
7	Level 7, The Capital B-Wing, Bandra Kurla Complex, Bandra East, Mumbai, 400051, India
8	Ebene Esplanade, 24 Cybercity, Ebene, Mauritius
9	Via Orefici 2, 20123 Milan, Italy
10	9 Rue Sainte Zithe, L-2763 Luxembourg, Grand Duchy of Luxembourg
11	2711 Centerville Road, Suite 4000, Wilmington, DE 19808, New Castle, USA
12	Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong
13	Cornelis Schuytstraat 72, 1071JL Amsterdam, Netherlands
14	60323 Frankfurt am Main, Germany
15	Gruber Str. 48, 85586 Poing, Germany
16	Mørupvej 16 Mørup 7400 Herning, Denmark
17	New Mill, New Mill Lane, Witney, Oxfordshire, England, OX29 9SX, UK
18	Aspen Building, Apex Way, Hailsham, East Sussex, BN27 3WA, UK
19	400 Madison Avenue, Suite 9C, New York, NY 10017, USA
20	Berger House (2nd Floor), 36-38 Berkeley Square, London, United Kingdom, W1J 5AE, UK
21	12 Castle Street, St Helier, Jersey, JE2 3RT, Jersey
22	6 Temasek Blvd, Singapore 038986, Singapore
23	Perenmarkt 15, Zwaagdijk East, 1681PG, Netherlands
24	Bradmarsh Business Park, Mill Close, Rotherham, South Yorkshire, S60 1BZ
25	Redhill Rd, Birmingham, B25 8EY, UK
26	An der Welle 4, 60322 Frankfurt, Germany
27	Paseo de la Castellana, 171, 28046 Madrid, Spain
28	Milton Gate, 60 Chiswell Street, London, EC1Y 4AG, UK
29	5th Floor, 6 St Andrew Street, London, EC4A 3AE, UK
30	First Floor, Quay 2, 139 Fountainbridge, Edinburgh, EH3 9QG, UK
31	Stoneferry Road, Hull, HU8 8DE, UK
32	Svärdvägen 3 B, Danderyd, 182 33, Sweden
33	Av. Ataulfo de Paiva, 1.100, 7th Floor, Leblon, Rio de Janeiro, RJ 22440-035, Brazil
34	Bristol Rd, Gloucester, GL1 5TT, UK
35	35 Great St Helen's, London, United Kingdom, EC3A 6AP, UK
36	7 Wornal Park Menmarsh Road, Worminghall, Aylesbury, Buckinghamshire, HP18 9JX, UK
37	Thor Group Ltd, Bramling House, Bramling, Canterbury, Kent, CT3 1NB, UK
38	The Zenith Building, 26 Spring Gardens, Manchester, Greater Manchester, M2 1AB, UK
39	Park a Eco Vendee Sud Loire, 85600, Bouffere, France
40	IFS Court, TwentyEight, Cybercity, Ebene, Mauritius
41	44 Oberoi Complex, Andthei (West), Mumbai, India
42	42 KCS Chambers, PO BOX 4051, Road Town, Tortola, British Virgin Islands
43	47 Esplanade, St Helier, Jersey, JE1 0BD

### 31 Discontinued operations

On 3 March 2017, the Group completed the disposal of its Debt Management business to Investcorp and received cash proceeds of £270 million. Included within the cash proceeds was £33 million which related to the repayment of loans provided to Debt Management to fund two CLO warehouses. At 31 March 2017, the Group retained residual stakes in a number of CLO funds which were not required by Investcorp for risk retention or other contractual requirements together with its holdings in the Global Income Fund and the Senior Loan Fund. These investments are treated as continuing operations and there were no assets held for sale on 31 March 2017. Since the publication of the Half-yearly report 2016 and following completion of the transaction on 3 March 2017,

Audited financial statements

# Notes to the accounts

continued

## 31 Discontinued operations continued

it is now expected that some of the investments not sold to Investcorp will be retained beyond the 12 month period prescribed by IFRS 5. Accordingly they are no longer classified as assets held for sale and have been included in continuing operations in these financial statements. As these investments are held at fair value through profit or loss, the reclassification out of held for sale had no impact on the carrying value of these investments.

The disposal group fulfilled the requirement of IFRS 5 to be classified as "discontinued operations" in the Consolidated statement of comprehensive income, the results of which are set out below.

### Consolidated statement of comprehensive income

	Group 2017 £m	Group 2016 £m
Realised profits over value on the disposal of investments	–	–
Unrealised profits/(losses) on the revaluation of investments	3	(22)
Fair value movements on investment entity subsidiaries	–	–
	<b>3</b>	<b>(22)</b>
Portfolio income		
Dividends	16	22
Interest income from investment portfolio	3	4
Fees receivable/(payable)	–	(1)
Foreign exchange on investments	16	12
<b>Gross investment return from discontinued operations</b>	<b>38</b>	<b>15</b>
Fees receivable from external funds	25	38
Operating expenses	(13)	(27)
Exchange movements	(2)	1
Other income	2	–
Carried interest		
Carried interest and performance fees receivable	1	5
Carried interest and performance fees payable	–	(2)
Acquisition related earn-out charges	–	(5)
<b>Operating profit before tax from discontinued operations</b>	<b>51</b>	<b>25</b>
Profit on disposal of Debt Management business before tax	48	–
Income taxes		
Income taxes on disposal of Debt Management business	(1)	–
Other income taxes	–	–
<b>Profit for the year from discontinued operations, net of tax</b>	<b>98</b>	<b>25</b>
Other comprehensive income for the year from discontinued operations	(7)	2
<b>Total comprehensive income for the year from discontinued operations</b>	<b>91</b>	<b>27</b>

### Cash flows

	Group 2017 £m	Group 2016 £m
Purchase of investments	(51)	(46)
Proceeds from the sale of investments <sup>1</sup>	25	2
Cash income, net carried interest, operating expenses and other	33	18
<b>Net cash flow from operating activities</b>	<b>7</b>	<b>(26)</b>
Sale of subsidiaries <sup>1</sup>	232	–
Cash held in sold subsidiaries	(4)	–
<b>Net cash flow from investing activities</b>	<b>228</b>	<b>–</b>
<b>Total net cash flows from discontinued operations</b>	<b>235</b>	<b>(26)</b>

<sup>1</sup> Total proceeds from the sale of the Debt Management business were £270 million, consisting of sale of subsidiaries (£232 million), proceeds from the sale of investments (£22 million of the £25 million total above) and settlement of an inter-company loan (£16 million)

### Earnings per share (pence)

	Group 2017	Group 2016
Basic, profit for the year from discontinued operations	10.2	2.6
Diluted, profit for the year from discontinued operations	10.1	2.6

# Independent Auditor's report to the members of 3i Group plc

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## Our opinion on the financial statements

### In our opinion:

- 3i Group plc's Group financial statements and Parent company financial statements (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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU");
- the Parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

## What we have audited

3i Group plc's financial statements comprise:

Group	Parent company
Consolidated statement of comprehensive income for the year to 31 March 2017	Company statement of financial position as at 31 March 2017
Consolidated statement of financial position as at 31 March 2017	Company statement of changes in equity for the year to 31 March 2017
Consolidated statement of changes in equity for the year to 31 March 2017	Company cash flow statement for the year to 31 March 2017
Consolidated cash flow statement for the year to 31 March 2017	Significant accounting policies
Significant accounting policies	Related Notes 1 to 31 to the financial statements
Related Notes 1 to 31 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Overview of our audit approach

<b>Risks of material misstatement</b>	<ul style="list-style-type: none"> <li>• Incorrect valuation of unquoted proprietary investments.</li> <li>• Incorrect calculation of carried interest.</li> <li>• Incorrect recognition of portfolio income and of realised profits on disposal of investments.</li> <li>• Incorrect accounting treatment of the sale of the Debt Management business and calculation of the profit on disposal.</li> </ul> <p>The first two risks are considered to be significant risks, consistent with the 2016 audit.</p>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>• The Group is principally managed from one location in London. All core functions, including finance and operations, are located in London. The Group operates eight international offices which are primarily responsible for deal origination and investment portfolio monitoring.</li> <li>• The Group comprises 67 consolidated subsidiaries and 45 investment entity subsidiaries. Monitoring and control over the operations of these subsidiaries, including those located overseas, is centralised in London.</li> <li>• The London based Group audit team performed direct audit procedures on all items material to the Group financial statements. Our audit sample covered 99% of the investment portfolio and 99% of carried interest accruals.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>• Overall Group materiality is £58m (2016: £44m) which represents 1% of net assets.</li> </ul>
<b>What has changed</b>	<ul style="list-style-type: none"> <li>• Incorrect accounting treatment of the sale of the Debt Management business and calculation of the profit on disposal is included as a risk of material misstatement. We have included this risk in the 2017 audit as the sale of the Debt Management business is a significant unusual transaction for the Group, outside the normal course of business.</li> </ul>

# Independent Auditor's report to the members of 3i Group plc

continued

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk
<p><b>Group and parent company risk</b></p> <p><b>Incorrect valuation of unquoted proprietary investments</b></p> <p><i>Refer to the Audit and Compliance Committee report (pages 69 to 73); Significant accounting policies (pages 108 to 111); and Notes 10, 11 and 12 of the financial statements (pages 120 to 124)</i></p> <p>The proprietary investment portfolio comprises a number of unquoted securities. In the Consolidated statement of financial position these are shown both as Investments (which are held directly by consolidated subsidiaries of the Group and Parent Company), and as Investments in investment entity subsidiaries (which are typically limited partnerships and other holding structures). In the Company statement of financial position these are shown both as investments (which are held directly by the Parent Company), and as Investments in investment entities (which are included within the Interests in Group entities line item).</p> <p>The Group adopts a valuation methodology based on the International Private Equity and Venture Capital Valuation Guidelines ('IPEV Guidelines') – December 2015, in conformity with IFRS 13 – <i>Fair Value Measurement</i>. Owing to the unquoted and illiquid nature of these investments, the assessment of fair valuation is subjective and requires a number of significant and complex judgments to be made by management. The exit value will be determined by the market at the time of realisation and therefore despite the valuation policy adopted and judgments made by management, the final sales value on realisation may differ materially from the valuation at the year end date.</p> <p>There is the risk that inaccurate judgments made in the assessment of fair value, in particular in respect of; earnings multiples, the application of liquidity discounts, calculation of discount rates and the estimation of future maintainable earnings, could lead to the incorrect valuation of the unquoted proprietary investment portfolio. In turn, this could materially misstate the value of the investment portfolio in the Statement of financial position, the Gross investment return and Total return in the Consolidated statement of comprehensive income and the Net asset value per share.</p> <p>There is also the risk that management may influence the significant judgments and estimations in respect of unquoted proprietary investment valuations in order to meet market expectations of the overall Net asset value of the Group.</p>	<p>Our procedures extended to testing 99% of the related amount.</p> <p>We obtained an understanding of management's processes and controls for determining the fair valuation of unquoted proprietary investments by performing walkthrough procedures. This included discussing with management the valuation governance structure and protocols around their oversight of the valuation process and corroborating our understanding by attending Valuations Committee meetings. We have identified key controls in the process, assessed the design adequacy and tested the operating effectiveness of those controls. We relied on controls over portfolio company and comparable company data used in the valuation of unquoted investments.</p> <p>We compared management's valuation methodology to IFRS and the IPEV guidelines. We sought explanations from management where there are judgments applied in their application of the guidelines, discussed and assessed their appropriateness.</p> <p>With the assistance of our valuations specialists, we formed an independent range for the key assumptions used in the valuation of a sample of unquoted investments within the private equity business line, with reference to relevant industry and market valuation considerations. We derived a range of fair values using our assumptions and other qualitative risk factors. We compared these ranges to management's fair values, and discussed our results with both management and the Valuations Committee.</p> <p>With respect to unquoted investments in the private equity business line, on a sample basis we corroborated key inputs in the valuation models, such as earnings and net debt to source data. We also performed the following procedures on key judgments made by management in the calculation of fair value:</p> <ul style="list-style-type: none"> <li>assessed the suitability of the comparable companies used in the calculation of the earnings multiples;</li> <li>challenged management on the applicability of adjustments made to earnings multiples, obtained rationale and supporting evidence for adjustments made;</li> <li>performed corroborative calculations to assess the appropriateness of discount rates; and</li> <li>discussed the adjustments made to calculate future maintainable earnings and corroborated this to supporting documentation.</li> </ul> <p>On a sample basis, we verified the valuation of unquoted investments retained from the Debt Management business to broker quotes and other data from third party pricing sources used by management in the calculation of fair value.</p> <p>We checked the mathematical accuracy of the valuation models on a sample basis. We recalculated the unrealised profits on the revaluation of investments impacting the Consolidated statement of comprehensive income.</p> <p>We discussed with management and understood the rationale for any differences between the exit prices of investments realised during the year and the prior year fair value, to further assess the reasonableness of the current year valuation assumptions and methodology adopted by management.</p>

### Key observations communicated to the Audit and Compliance Committee:

The valuation of the unquoted proprietary investment portfolio is determined to be within a reasonable range of fair values. All valuations tested have been recognised in accordance with IFRS and the IPEV Guidelines. Appropriate inputs to the valuations were used and the valuations calculated by management are within a reasonable range. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

Risk	Our response to the risk
<p><b>Group and parent company risk</b></p> <p><b>Incorrect calculation of carried interest</b></p> <p><i>Refer to the Audit and Compliance Committee report (page 69 to 73); and Notes 11 and 13 of the financial statements (pages 121 and 125)</i></p> <p>Carried interest receivable is an accrual of the share of the profits from funds managed by the Group on behalf of third parties. Carried interest payable is an accrual of amounts payable to investment executives in respect of the returns on successful investments both from Group proprietary capital and third-party capital. Carried interest is only paid on realisation of investments.</p> <p>Carried interest receivable and payable is calculated as a percentage of the profits that would be achieved, if the investments within each fund or scheme were realised at fair value at the year end date, subject to the relevant hurdle rates or performance conditions being met.</p> <p>Judgment is required in determining the fair value of the investment portfolio (as described in the preceding risk section) and therefore, whether hurdles or performance conditions have been achieved.</p> <p>There are multiple carried interest arrangements in place and investment executives may participate in more than one scheme. These arrangements have been structured over multiple periods and include different pools of investments. The process of calculating carried interest receivable and payable relies on manual calculations.</p> <p>Due to the complexities inherent in the arrangements and the manual nature of the recognition process, there is a risk that the carried interest calculations are incorrectly calculated or recognised in the wrong period.</p> <p><b>Key observations communicated to the Audit and Compliance Committee:</b></p> <p>Our audit procedures did not identify any matters regarding the recognition of carried interest in accordance with IFRS. All calculations tested have been performed in accordance with contractual terms. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.</p>	<p>Our procedures extended to testing 99% of the related amount.</p> <p>We obtained an understanding of management's processes and controls for the calculation of carried interest by performing walkthrough procedures, and discussing with management the governance structure and protocols around their oversight of the carried interest arrangements. Given the manual nature of the calculation, although controls were deemed to be designed effectively, we adopted a substantive approach to our testing.</p> <p>We agreed a sample of calculation methodologies to their respective terms and conditions set out in the underlying agreements.</p> <p>Our audit procedures on the fair value of the underlying investments are described in the preceding risk section. We performed analytical procedures comparing the performance of the reference investments in each fund or scheme, taking into account the investment realisations, to the related accruals in the financial statements.</p> <p>On a sample basis we:</p> <ul style="list-style-type: none"> <li>recalculated the returns on the fund or scheme to test that hurdles or performance conditions had been met where carried interest was being accrued;</li> <li>recalculated the carried interest accruals for mathematical accuracy and agreed the investment fair values to our audit work on the fair value of the investment portfolio, the fee rates to the relevant agreements and realised gains to our audit work on realised profits;</li> <li>determined the reasonableness of investment exit dates with reference to our audit work on the fair value of the investment portfolio and our understanding of the life cycle of the relevant investments, and then compared this against the anticipated payment dates used to discount the carried interest accrual; and</li> <li>verified the resulting cash flows to approvals and bank statement payments.</li> </ul>

# Independent Auditor's report to the members of 3i Group plc

continued

Risk	Our response to the risk
<p><b>Group and parent company risk</b></p> <p><b>Incorrect recognition of portfolio income and of realised profits on disposal of investments</b></p> <p>Refer to the <i>Audit and Compliance Committee report</i> (pages 69 to 73); <i>Significant accounting policies</i> (pages 108 to 111); and <i>Notes 2 and 11 of the financial statements</i> (page 115 and 121)</p> <p>Portfolio income is directly attributable to the return from investments. This includes: dividends from investee companies and income from loans and receivables.</p> <p>Realised profits originate from disposals of investments. Realised profits are calculated as the difference between the net proceeds and the investment's fair value at the beginning of the year.</p> <p>Market expectations and revenue based targets may place pressure on management to influence the recognition of portfolio income or realised gains. This may result in overstatement or deferral of revenues to assist in meeting current or future targets or expectations.</p>	<p>Our procedures extended to testing 69% of the related amount.</p> <p>We obtained an understanding of management's processes and controls around accounting for portfolio income and realised gains by performing walkthrough procedures. We identified key controls in the processes, assessed design adequacy and tested operating effectiveness of those controls. Controls were deemed to be designed and operating effectively.</p> <p>We performed detailed testing on a sample of transactions to confirm whether they had been appropriately recorded in the Consolidated statement of comprehensive income.</p> <p>For portfolio income, on a sample basis, we:</p> <ul style="list-style-type: none"> <li>agreed dividends from investee company to the dividend notice; and</li> <li>recalculated interest income based on the terms of the underlying agreements.</li> </ul> <p>For realised gains, on a sample basis, we:</p> <ul style="list-style-type: none"> <li>analysed the contract and terms of the sale to determine whether the Group had met the stipulated requirements, confirming that the net proceeds and therefore the realised profit over opening value could be reliably measured, and</li> <li>re-performed management's calculations to determine mathematical accuracy and confirmed the collection of the net proceeds by agreeing the cash receipt to bank statements.</li> </ul> <p>For all samples selected for testing we verified that revenue is recognised when the significant risks and rewards of ownership have been transferred.</p> <p>We performed enquiries of management and read minutes of meetings throughout the year and subsequent to the year end in order to address the risk of management override of controls to defer revenue recognition.</p>

**Key observations communicated to the Audit and Compliance Committee:**

Our audit procedures did not identify any material matters regarding the recognition of portfolio income and of realised profits on disposal of investments. All transactions tested have been recognised in accordance with contractual terms and IFRS. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

Risk	Our response to the risk
<p><b>Group only risk</b></p> <p><b>Incorrect accounting treatment of the sale of the Debt Management business and calculation of the profit on disposal</b></p> <p>Refer to the <i>Audit and Compliance Committee report</i> (pages 69 to 73); and <i>Note 31 of the financial statements</i> (pages 147 to 148)</p> <p>The sale of the Debt Management business completed on 3 March 2017. The transaction resulted in a profit on disposal and discontinued operations recorded within the Consolidated statement of comprehensive income.</p> <p>The sale of the Debt Management business, is a transaction outside the normal course of business for the Group and has a number of associated risks, including: the complex and manual nature of the calculation of profit on disposal, and the complexities involved in accounting in accordance with IFRS 5 – <i>Non-current Assets Held for Sale and Discontinued Operations</i> (IFRS 5).</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>read the contract and terms of the sale to verify that the Group met the requirements to derecognise the disposal group;</li> <li>re-performed management's calculations of the profit on disposal, checked mathematical accuracy and verified collection of the net proceeds and accuracy of their recording by agreeing the cash receipts to bank statements;</li> <li>performed testing over the amounts classified on the Consolidated statement of comprehensive income as income from a discontinued operation, for accuracy and for compliance with IFRS; and</li> <li>reviewed the accounting treatment of the disposed Debt Management business line and related disclosures in the financial statements, for compliance with IFRS 5.</li> </ul>

**Key observations communicated to the Audit and Compliance Committee:**

Our audit procedures did not identify any material matters regarding the sale of the Debt Management business and calculation of the profit on disposal. The transaction has been recognised and disclosed in the financial statements in accordance with contractual terms and IFRS. Based on our procedures performed we had no material matters to report to the Audit and Compliance Committee.

## The scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

The investment portfolio balance is the most material part of the Consolidated statement of financial position. Monitoring and control over the valuation of investments is exercised by management centrally in London, and as such is audited wholly by the London based Group audit team. Monitoring and control over the operations of the subsidiaries within the Group, including those located overseas, is centralised in London. The Group audit team performed all the work necessary to issue the Group and Parent company audit opinion, including undertaking all of the audit work on the risks of material misstatement identified above.

### Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £58m (2016: £44m), which is 1% (2016: 1%) of net assets. We believe that net assets provides us with a consistent year on year basis for determining materiality, and is the most relevant measure to the stakeholders of the entity.

We calculated materiality during the planning stage of the audit then reassessed it based on the 31 March 2017 net asset value, and adjusted our audit procedures accordingly.

#### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £29m (2016: £22m). This is at the lower end of the range of 50% to 75%. In arriving at 50%, we considered the judgmental nature of the valuations in the Consolidated statement of financial position and the relative value of transactions recorded in the other primary statements, to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality of £58m.

#### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit and Compliance Committee that we would report to them all uncorrected audit differences in excess of £2.9m (2016: £2.0m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Scope of the 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 Group's and the Parent Company's circumstances and have been consistently applied 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 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 the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Audited financial statements

# Independent Auditor's report to the members of 3i Group plc

continued

## Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 99, 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.

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.

## 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
- based on the work undertaken in the course of the audit:
  - 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;
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

### ISAs (UK and Ireland) reporting

We are required to report to you if, in our opinion, financial and non-financial 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 report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit and Compliance Committee that we consider should have been disclosed.

### Companies Act 2006 reporting

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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 branches 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.

### Listing Rules review requirements

We are required to review:

- the directors' statement in relation to going concern, set out on page 98 and longer-term viability, set out on page 49; and
- the part of the Corporate Governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

## Conclusion in respect of all matters on which we are required to report by exception:

We have no exceptions to report in respect of any of the responsibilities above.

## Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

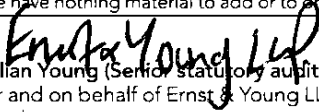
### ISAs (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Conclusion

We have nothing material to add or to draw attention to in respect of the above.

  
 Julian Young (Senior statutory auditor)  
 for and on behalf of Ernst & Young LLP, Statutory Auditor  
 London  
 17 May 2017

### 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

## 20 Large investments

The 20 investments listed below account for 89% of the portfolio at 31 March 2017 (31 March 2016: 70%). This table does not include two investments that have been excluded for commercial reasons. For each of our 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.

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. Controlled subsidiaries under IFRS are noted below. None of these investments are UK Companies Act subsidiaries.

In accordance with Part 5 of The Alternative Investment Fund Managers Regulations 2013 ("the Regulations"), 3i Investments plc, as AIFM, requires all controlled portfolio companies to make available to employees an annual report which meets the disclosure requirements of the Regulations. These are available either on the portfolio company's website or through filing with the relevant local authorities.

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost <sup>1</sup> March 2016 £m	Residual cost <sup>1</sup> March 2017 £m	Valuation March 2016 £m	Valuation March 2017 £m	Relevant transactions in the year
<b>Action*</b> Non-food discount retailer	Private Equity Benelux 2011 Earnings	1	1	902	1,708	Refinancing returned £187m of proceeds
<b>3i Infrastructure plc*</b> Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	270	399	464	655	Invested £131m in 3iN's capital raise
<b>Scandlines*</b> Ferry operator between Denmark and Germany	Private Equity Denmark/ Germany 2007/2013 DCF	114	114	369	538	
<b>Q Holding*</b> Manufacturer of precision engineered elastomeric components	Private Equity US 2014 Earnings	100	162	120	222	Further investment to support Q Holding's investment in Degania
<b>Weener Plastic*</b> Supplier of plastic packaging solutions	Private Equity Germany 2015 Earnings	151	161	173	200	
<b>Audley Travel*</b> Provider of experiential tailor made travel	Private Equity UK 2015 Earnings	161	177	158	185	
<b>Basic-Fit</b> Discount gyms operator	Private Equity Benelux 2013 Quoted	99	11	208	184	Listed on Amsterdam Stock Exchange in June 2016 and returned £82m of proceeds
<b>ATESTEO*</b> International transmission testing specialist	Private Equity Germany 2013 Earnings	83	39	130	160	Refinancing returned £48m of proceeds
<b>Schlemmer*</b> Provider of cable management solutions for the automotive industry	Private Equity Germany 2016 Earnings	-	162	-	154	New investment

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost <sup>†</sup> March 2016 £m	Residual cost <sup>†</sup> March 2017 £m	Valuation March 2016 £m	Valuation March 2017 £m	Relevant transactions in the year
<b>BoConcept*</b> Urban living brand	Private Equity Denmark 2016 Earnings	–	140	–	146	New investment
<b>Panroy Santé*</b> Manufacturer of natural healthcare and cosmetics products	Private Equity France 2017 Earnings	–	123	–	122	New investment
<b>AES Engineering</b> Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	30	92	113	
<b>Tato</b> Manufacturer and seller of speciality chemicals	Private Equity UK 1989 Earnings	2	2	80	112	
<b>Christ*</b> Distributor and retailer of jewellery	Private Equity Germany 2014 Earnings	99	101	117	98	
<b>Euro-Diesel*</b> Manufacturer of uninterruptible power supply systems	Private Equity Benelux 2015 Earnings	52	57	59	95	
<b>Aspen Pumps*</b> Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	70	78	64	88	
<b>Global Income Fund</b> Debt Management open ended fund with exposure to North America and western European issuers	Other UK 2015 Fund	48	66	52	79	Further investment of £24m
<b>MKM</b> Building materials supplier	Private Equity UK 2006 Imminent sale	23	24	53	68	Sale announced with proceeds of £70m
<b>OneMed Group*</b> Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	124	130	60	59	
<b>Dynatect*</b> Manufacturer of engineered, mission critical protective equipment	Private Equity US 2014 Earnings	65	65	63	56	
		1,492	2,042	3,164	5,042	

\* Controlled in accordance with IFRS.

† Residual cost includes capitalised interest.

## 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 the residual 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 2015). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date. The majority of the portfolio, however, is represented by unquoted investments.

### Private Equity unquoted valuation

To arrive at the fair value of the Group's unquoted Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. We then apportion that enterprise value between 3i, other shareholders and lenders.

### Determining enterprise value

The 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, and trading updates from our portfolio.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a liquidity discount. The liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are more restrictions on our ability to sell at a time of our choosing.

The table opposite 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 carrying 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 unquoted 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 – classified as other

On 3 March 2017, the Group completed the disposal of its Debt Management business to Investcorp for cash consideration of £270 million. The remaining CLO assets are held at fair value. Fund investments are based on reported NAV. Fair value is based on a range of data including broker quotes if available, trading data where available, and data from third-party valuation providers.

Methodology	Description	Inputs	Adjustments	% of investment basis portfolio valued on this basis
<b>Earnings (Private Equity)</b>	<p>Most commonly used Private Equity valuation methodology</p> <p>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</p>	<p>Earnings multiples are applied to the earnings of the Company to determine the enterprise value</p> <p><b>Earnings</b> 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</p> <p>Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA")</p> <p>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</p> <p>Action is valued using its run-rate earnings to the closest period end as 3i's</p> <p><b>Earnings multiples</b> The earnings multiple is derived from comparable listed companies or relevant market transaction multiples</p> <p>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</p> <p>We adjust for relative performance in the set of comparables, exit expectations and other company specific factors</p>	<p>A 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</p>	<b>66%</b>
<b>Quoted (Infrastructure/Private Equity)</b>	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	<b>16%</b>
<b>Imminent sale (Private Equity)</b>	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	<b>1%</b>
<b>Fund (Private Equity/Other)</b>	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	<b>2%</b>
<b>Specific industry metrics (Private Equity)</b>	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	<p>We create a set of comparable listed companies and derive the implied values of the relevant metric</p> <p>We track and adjust this metric for relative performance, as in the case of earnings multiples</p> <p>Comparable companies are selected using the same criteria as described for the earnings methodology</p>	An appropriate discount is applied, depending on the valuation metric used	<b>2%</b>
<b>Discounted cash flow (Private Equity/Infrastructure)</b>	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	<b>11%</b>
<b>Broker quotes (Other)</b>	Used to value traded debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned, benchmarked to a range of other data such as trade data and other quotes	No discount is applied	<b>1%</b>
<b>Other (Private Equity)</b>	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	<b>1%</b>

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.

Portfolio and other information

# Information for shareholders

## Financial calendar

Ex-dividend date	Thursday 15 June 2017
Record date	Friday 16 June 2017
Annual General Meeting*	Thursday 29 June 2017
Final dividend to be paid	Friday 21 July 2017
Half-year results (available online only)	November 2017
Interim dividend expected to be paid	January 2018

\* The 2017 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 29 June 2017 at 11.00 am. For further details please see the Notice of Annual General Meeting 2017.

## Information on ordinary shares

Shareholder profile: Location of investors at 31 March 2017

UK	61.0%
North America	24.3%
Continental Europe	10.6%
Other international	4.1%

## Share price

Share price at 31 March 2017	749.5p
High during the year (31 March 2017)	749.5p
Low during the year (7 April 2016)	443.3p

## Dividends paid in the year to 31 March 2017

FY2016 Final dividend, paid 22 July 2016	16.0p
FY2017 Interim dividend, paid 4 January 2017	8.0p

## Balance analysis summary

	Number of holdings individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2017	%
1-1,000	12,565	384	5,789,866	0.60
1,001-10,000	5,281	577	13,373,283	1.37
10,001-100,000	154	378	18,727,404	1.93
100,001-1,000,000	17	336	119,099,036	12.24
1,000,001-10,000,000	0	126	351,396,530	36.12
10,000,001-highest	0	19	464,422,305	47.74
<b>Total</b>	<b>18,017</b>	<b>1,820</b>	<b>972,808,424</b>	<b>100.00</b>

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2017.

## Boiler room and other scams

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](http://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.

## 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](http://www.shareview.co.uk/clients/3isignup) and follow the instructions there to register.

The 2017 half-yearly report will be available online only. Please register to ensure you are notified when it becomes available at [www.3i.com/investor-relations/financial-news](http://www.3i.com/investor-relations/financial-news).

More general information on electronic communications is available on our website at [www.3i.com/investor-relations/shareholder-information](http://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](mailto:IRTeam@3i.com)

or visit the Investor relations section of our website at [www.3i.com/investor-relations](http://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:

Equinti  
Aspect House  
Spencer Road  
Lancing  
West Sussex, BN99 6DA  
Telephone 0371 384 2031

Lines are open from 8.30am to 5.30pm, Monday to Friday (international callers +44 121 415 7183).

## Glossary

**Alternative Investment Funds (“AIFs”)** At 31 March 2017, 3i Investments plc as AIFM, managed five AIFs.

**Alternative Investment Fund Manager (“AIFM”)** is the regulated manager of AIFs. Within 3i, this is 3i Investments plc.

**Approved Investment Trust Company** This is a particular UK tax status maintained by 3i Group plc, the parent company of 3i Group. An approved investment trust company is a UK company which meets certain conditions set out in the UK tax rules which include a requirement for the company to undertake portfolio investment activity that aims to spread investment risk and for the company's shares to be listed on an approved exchange. The “approved” status for an investment trust must be agreed by the UK tax authorities and its benefit is that certain profits of the company, principally its capital profits, are not taxable in the UK.

**Assets under management (“AUM”)** A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee. AUM is measured at fair value. The measurement changed in the year from residual value to fair value to reflect the scale of 3i's business and, in the absence of a third-party fund in Private Equity, it is not a measure of fee generating capability.

**Base Erosion and Profit Shifting (“BEPS”) Project** is an OECD initiative that was launched in 2013, at the request of the G20 countries, to develop specific, detailed proposals, rules and instruments required to equip governments and tax authorities to address the BEPS challenge and the proposals were delivered to and approved by the G20 leaders in November 2015. Countries are now in the process of considering and implementing changes to their domestic tax laws and international tax treaties to give effect to the recommendations made by the BEPS project team.

**Board** The Board of Directors of the Company.

**Capital redemption reserve** is established in respect of the redemption of the Company's ordinary shares.

**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.

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

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

**Collateralised Loan Obligation (“CLO”)** A form of securitisation where payments from multiple loans are pooled together and passed on to different classes of owners in various tranches.

**Common Reporting Standard (“CRS”)** imposes obligations on financial groups and entities to identify and report details, relating to the foreign investors investing in such groups and entities, to the local tax authority who then exchange the information with the other relevant tax authorities.

**Company** 3i Group plc.

**Country by Country reporting (“CbC Reporting”)** refers to a requirement for large multinational groups, operating in different countries, to file an annual report detailing certain information about the activities of the entities in the Group, on a country by country basis, covering the countries in which the Group entities operate. This new requirement applies to the Group for its accounting periods beginning after 1 April 2016.

**Discounting** The reduction in present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money.

**Disposal Group** is comprised of the assets and liabilities associated with the Group's Debt Management business sold to Investcorp in March 2017.

**Dividend income from equity investments and CLO capital** is recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established.

**EBITDA** is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

**EBITDA multiple** Calculated as the enterprise value over EBITDA, it is used to determine the value of a company.

**Executive Committee** The Executive Committee is responsible for the day-to-day running of the Group and comprises: the Chief Executive, Group Finance Director, the Managing Partners of the Private Equity and Infrastructure businesses and the Group's General Counsel.

**Fair value movements on investment entity subsidiaries** The movement in the carrying value of Group subsidiaries, classified as investment entities under IFRS 10, between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

**Fair value through profit or loss ("FVTPL")** is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains and losses on assets and liabilities measured as FVTPL are recognised directly in the Statement of comprehensive income.

**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.

**Fees receivable from external funds** are fees received by the Group, from third parties, for the management of Private Equity and Infrastructure funds.

**Foreign Account Tax Compliance Act ("FATCA")** is US tax legislation aimed at preventing offshore tax avoidance by US persons. The rules impose obligations on non-US financial groups and entities to identify and report details relating to US investors who have invested in those groups and entities.

**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.

**Gross investment return ("GIR")** includes profit and loss on realisations, increases and decreases in the value of the investments we hold at the end of a period, any income received from the investments such as interest, dividends and fee income and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value.

**Interest income from investment portfolio** is recognised as it accrues. 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.

**International Financial Reporting Standards ("IFRS")** are accounting standards issued by the International Accounting Standards Board ("IASB"). The Group's consolidated financial statements are required to be prepared in accordance with IFRS.

**Investment basis** Accounts prepared assuming that IFRS 10 had not been introduced. Under this basis, we fair value portfolio companies at the level we believe provides the most comprehensive financial information.

The commentary in the Strategic report refers to this basis as we believe it provides a more understandable view of our performance.

# Glossary

continued

**Key Performance Indicators ("KPI")** is a measure by reference to which the development, performance or position of the Group can be measured effectively.

**Money multiple** is calculated as the cumulative distributions plus any residual value divided by paid-in capital.

**Net asset value ("NAV")** is a measure of the fair value of our proprietary investments and the net costs of operating the business.

**Operating cash profit** is the difference between our cash income (consisting of portfolio interest received, portfolio dividends received, portfolio fees received and fees received from external funds as per the Investment basis Cash flow statement) and our operating expenses (as per the Investment basis cash flow statement).

**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.

**Portfolio income** is that which 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. It is comprised of dividend income, interest income from investment portfolio and fee income.

**Proprietary Capital** Shareholders' capital which is available to invest to generate profits.

**Public Private Partnership ("PPP")** is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

**Realised profits or losses over value on the disposal of investments** The difference between the fair value of the consideration received, less any directly attributable costs, on the sale of equity and the repayment of interest income from investment portfolio and its carrying value at the start of the accounting period, converted into sterling using the exchange rates at the date of disposal.

**Revenue reserve** recognises all profits that are revenue in nature or have been allocated to revenue.

**Segmental reporting** Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive who is considered to be the Group's chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

**Share-based payment reserve** is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

**Total return** comprises operating profit less tax charge less movement in actuarial valuation of the historic defined benefit pension scheme.

**Total shareholder return ("TSR")** is the measure of the overall return to shareholders and includes the movement in the share price and any dividends paid, assuming that all dividends are reinvested on their ex-dividend date.

**Translation reserve** comprises all exchange differences arising from the translation of the financial statements of international operations.

**Unrealised profits or losses on the revaluation of investments** The movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

**Value weighted earnings growth** The growth in the last 12-month earnings, when comparing to the preceding 12 months.

Designed and produced by **Radley Yeldar** [www.ry.com](http://www.ry.com)

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Coastline by Cheryl Ann Williams  
Original painting in acrylic on canvas.

**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

### **3i Group plc**

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