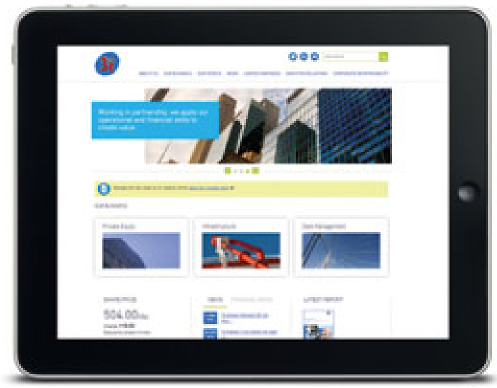
3i Group plc

Annual report and accounts 2016

In this report



Corporate website

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

www.3i.com

Cover photographs

Top left image: Esvagt
Top right image: Euro-Diesel
Bottom image: Audley Travel

For definitions of our financial terms, used throughout this report, please see our glossary on pages 152 to 155.

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 described on page 48 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 49 to 52.

Overview

2016 Introduction

As a result of our three-year transformation 3i is now a stronger company, both commercially and financially.

Our 2016 results demonstrate our continued momentum and potential for resilient performance through the economic cycle.

Looking forward, our network and investment discipline underpin our ability to continue to deliver attractive returns for shareholders.

Private Equity

Infrastructure

Debt Management

What we do

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

Business model and strategy

3i is a diversified investor with disciplined and consistent investment processes. This, together with our proprietary and third-party capital, supports our objective to deliver good returns through the cycle.

For further information, please see
p10

Overview

Key performance highlights

for the year to 31 March 2016

Total return on equity

22%

(2015: 20%)

NAV per share

463p

(2015: 396p)

Full year dividend per share

22p

(2015: 20p)

Operating cash profit

£37m

(2015: £28m)

Private Equity realisation proceeds

£743m

(2015: £831m)

Private Equity cash invested

£365m

(2015: £369m)

Infrastructure realisation proceeds

£51m

(2015: £10m)

Infrastructure operating cash income

£49m

(2015: £47m)

Debt Management AUM raised

£1.5bn

(2015: £2.4bn)

Debt Management fee income

£38m

(2015: £34m)

Read more about our financial performance
p36

Chairman's statement

"2016 has delivered another robust result which demonstrates the value of our clear, consistent strategy and disciplined approach to investment."

Overview

In my first year as Chairman, I am pleased to report that 3i delivered another robust result. The Group has a clear, consistent strategy and Simon Borrows and the team continue to make excellent progress in positioning 3i as a business capable of delivering attractive returns throughout the economic cycle.

Market environment

2015 was marked by considerable turbulence in global markets and growth indicators in the US and Europe remained under pressure. As a consequence, central bank monetary policy continued to be supportive across all the major developed economies with interest rates remaining at historic lows. 3i has limited direct exposure to companies in the most challenged sectors and our portfolio performed well, with our largest and strongest investments, including Action, Scandlines and 3i Infrastructure plc, delivering strong year-on-year improvements in performance.

Performance and dividend

In FY2016, total return increased by 25% to £824 million (2015: £659 million). Net asset value increased to 463 pence per share (31 March 2015: 396 pence) and return on opening shareholders' funds was 21.7% (2015: 19.9%). We remained net divestors during FY2016 and ended the year with a net cash position of £165 million and available liquidity of £1,352 million (31 March 2015: net cash of £49 million and liquidity of £1,214 million). In light of this strong performance, the Board has recommended a final dividend of 16 pence per share (2015: 14 pence per share), resulting in a full year dividend of 22 pence per share (2015: 20 pence per share), equivalent to 27% of cash realisation proceeds (2015: 23%). This reflects the Board's continuing confidence in both the Group's future prospects and its cash generation capability. Subject to shareholder approval, we will pay the final dividend of 16 pence (2015: 14 pence) in July 2016.

Our current dividend policy, set in May 2012, contemplates distributions of between 15–20% of cash realisation proceeds (subject to certain criteria on gross debt and gearing described below) with a minimum dividend of 8.1 pence per year. As a result of the Group's strong performance and conservative balance sheet strategy, actual dividends have exceeded 20% of realised proceeds in each of the years the policy has been in operation.

In light of the Group's continued progress in executing its strategy, the quality of its investment portfolio and forecast realisation pipeline, the Board has decided that with effect from FY2017, the base dividend will increase to 16 pence per annum, with an additional final dividend each year taking account of cash realisations, the investment pipeline and the balance sheet at year end. Consistent with our conservative approach, we will maintain our criteria of only paying an additional final dividend provided gross debt is less than £1 billion and gearing is less than 20%, but do not expect this to be a practical constraint. Further detail on the Group's approach to capital allocation is provided in the Chief Executive's review.

Outlook

The combination of continuing market volatility and the upcoming Brexit referendum is likely to weigh on investor sentiment, with reduced M&A volumes and delays in capital investment likely to persist while the uncertainty remains. However, I believe that 3i's proprietary capital, selective investment approach and balance sheet strength positions the Group well to deal with these uncertain economic and financial conditions. A clear, consistent strategy and disciplined approach to investment underpin our confidence in the future success of the Group.

Simon Thompson
Chairman

Strategic report

Chief Executive's review

"2016 was another strong year for 3i and built on the success of our recent restructuring. The Group's performance has been resilient in the face of challenging macro-economic conditions and volatile markets."

We have continued to execute our well established strategy, making good progress against our key performance indicators, with all three of our businesses building on the momentum seen in previous years. 3i generated an excellent total return on opening shareholders' funds of 21.7% (2015: 19.9%) and a NAV per share of 463 pence (31 March 2015: 396 pence). This year's financial and operational performance, against a backdrop of volatile market sentiment, demonstrates the depth of the Group's investment capabilities and potential to generate attractive returns for investors through the cycle.

Another year of resilient financial performance

Private Equity had an excellent year, generating a gross investment return of £1,011 million, or 32% of opening value (2015: £719 million, 24%). This reflects strong performance from our larger investments, particularly Action, Basic-Fit and Scandlines.

Action, the leading non-food discounter in continental Europe, had another outstanding year with a 36% increase in EBITDA and like-for-like sales growth of 7.6%. Action continued its successful store roll-out programme, opening 141 net new stores in the year, and at the end of 2015 had 655 stores in six countries (with a total of 410 opened since our investment in 2011). Action's international expansion has been a key driver of its success to date, with France and Germany now the main markets for growth. In addition, Action entered Austria and Luxembourg in 2015; early progress is encouraging and provides further evidence that Action's store concept travels well across borders. To enhance Action's international growth plans, a third distribution centre opened north of Paris in early 2016 and a fourth and fifth are planned for Toulouse and Mannheim respectively. 2016 promises to be another strong year for Action as it plans to open more stores than last year. We acquired Action in 2011 as a Benelux retailer but in 2015, Action opened more stores in France and Germany than in the Benelux and it has now become a truly pan-European retailer.

I joined the Board of Peer Holding BV, Action's parent company, last year in recognition of the importance of this investment to 3i and in order to foster closer links between the two groups.

Scandlines, a large ferry operator with two high frequency, large capacity routes between Germany and Denmark, continues to perform well due to strong volume growth and a shift in mix towards higher margin booking classes. The Danish Transport Ministry has confirmed that the opening date of a competing tunnel, the Fehmarn Belt Fixed Link, on Scandlines' key route between Rødby and Puttgarden will be delayed further, which is an important development for Scandlines.

Positive momentum continues at Basic-Fit, the leading discount fitness operator in continental Europe, with very good earnings growth and ongoing capital investment to upgrade its existing gym portfolio and open new units. Basic-Fit is now Europe's largest discount gym chain and had 351 gyms and 1.1 million members at 31 March 2016. It is another pan-European business, growing strongly in France and Spain, having established market leadership in the Netherlands and Belgium. On 17 May 2016, Basic-Fit announced its intention to launch an Initial Public Offering and Listing on Euronext Amsterdam.

The wider portfolio continues to perform well, notwithstanding the slowing macro-economic conditions, with encouraging performance from some of our newer investments. Our decision in 2012 to focus our Private Equity resources on core sectors and geographies has limited the negative impact from broader geo-political and economic concerns. Our monthly portfolio monitoring means that potential issues are highlighted early and any remedial actions put in place promptly. However, we cannot be immune to issues in the markets in which we operate. In particular, the impact of the lower oil price on the wider energy and industrial sectors has impacted our investments in JMJ and Dynatect. Reduced capital expenditure by oil and gas companies has continued to affect JMJ, which provides consultancy services to the sector. It has also had a negative effect on Dynatect, a specialist provider of protection equipment. Dynatect has a number of large customers which supply the capital goods sector, including oil and gas, in the US and suffered from reduced orders in 2015. Foreign exchange volatility has also hindered trading for a number of our companies and the decline in Russian consumer spending has had a negative impact on trading at our lingerie retailer, Agent Provocateur. However, the portfolio is performing well overall, with only a small minority of our investments seeing earnings decline in 2015. Value weighted earnings increased by 17% (2015: 19%) over the year.

The flow of realisations has continued and Private Equity realised total proceeds of £743 million (2015: £831 million). A supportive market for realisations in the first half of our financial year meant that we continued to make good progress in reshaping our portfolio. In total we disposed of 11 smaller or older assets in the year which freed up investment executive time to focus on origination and managing and ultimately maximising value in our stronger assets.

As we noted at the half-year, we have reached a point in the evolution of the portfolio where more of our realisations will come from our stronger assets. Despite a more challenging macro-economic environment for realisations in the second half of FY2016, we sold Element Materials Technology ("Element"), one of our largest and highest growth investments. Under 3i's ownership, Element completed and successfully integrated 10 acquisitions which also delivered an increase in EBITDA margin from 16% to 26%. As a result, revenue nearly trebled to c.US$290 million and EBITDA quadrupled to US$80 million. Total cash proceeds to 3i on the sale were £188 million with a money multiple of 3.9x (4.5x in euro). In total, cash returns were £217 million, including the refinancing completed in 2014. This was an excellent result and all credit to the management team at Element as well as our own Private Equity team.

Action completed a £1.2 billion senior debt refinancing, despite deteriorating conditions in the debt markets, in February 2016. Action's performance and strong cash generation meant it had been able to de-lever rapidly since its prior refinancing in 2015. Such is the strength of the Action proposition that we have already returned a 3.5x euro cash multiple on our original investment without reducing our equity ownership. This transaction contributed £168 million to the £185 million of realisations received from refinancings this year.

We closed the year with a strong realisation pipeline and post year end we announced the disposal of Amor, the market leader for medium price jewellery in Germany, for estimated proceeds of £89 million and 2.5x original euro cost (2.3x in sterling) as well as Mayborn, owner of the Tommee Tippee baby products brand, for £135 million (3.5x).

We have maintained the investment momentum seen in FY2015. In a competitive market, our pricing discipline is paramount but we were nevertheless able to secure three interesting new investment opportunities through careful and well managed processes. We invested £406 million (of which £365 million was 3i Group proprietary capital) in Weener Plastic Packaging Group ("Weener Plastic"), Euro-Diesel and Audley Travel as well as a further investment in ATESTEO (formerly known as GIF) through the buyout of the founding family's remaining interest. Further details on the new investments can be found on pages 18 and 19.

The number of portfolio companies in Private Equity was 47 unquoted assets and five quoted stakes at 31 March 2016 (31 March 2015: 61 unquoted assets and four quoted stakes) and we remain on target to meet our medium-term objective of holding 30–40 Private Equity assets.

Finally, we reached an important milestone at 31 March 2016 with the accounting recognition of carry receivable for Eurofund V. This is an excellent achievement as the fund performance has recovered from a low point of 0.6x in 2009 to 1.7x at 31 March 2016.

The Infrastructure team built on FY2015's excellent performance and its core portfolio of European economic infrastructure assets continues to perform well and underpins good levels of income for the Group. The business generated cash income of £49 million (2015: £47 million) through its fund advisory and management activities and dividend income from 3i Infrastructure plc ("3iN"). The good portfolio performance also resulted in a NAV based performance fee for 3i of £20 million (2015: £45 million). In addition, 3i received a special dividend of £51 million (2015: nil) from 3iN following its sale of Eversholt Rail.

Strategic report

Chief Executive's review

Against a backdrop of intense competition for infrastructure assets, and particularly for large core economic infrastructure assets, the team advised 3iN on a revised return target, announced in May 2015, and changed their investment focus towards mid-market economic infrastructure businesses and primary PPP and low-risk energy projects, which offer more attractive risk-adjusted returns. The new leadership team has made a number of senior hires, including a new origination partner, to support the strategic development and momentum of the business. The change in focus and high level recruitment has led to a material increase in origination activity. Infrastructure announced the completion of four new investments (two further terminals alongside Oiltanking, ESVAGT, the West of Duddon Sands Offshore Transmission Owner and a French PPP investment in Condorcet Campus) totalling £193 million in the year. 3iN also announced a £75 million investment in Wireless Infrastructure Group and a c.£154 million investment in TCR, Europe's largest independent asset owner of airport ground support equipment, in April 2016.

The success of the new investment strategy led to 3iN's announcement on 12 May 2016 of its intention to raise new equity of up to £350 million to fund new investments and its future pipeline. We have indicated our intention to support the transaction, and maintain our 34% interest in 3iN.

The Debt Management business had a successful year of fund raising in Europe and the US and AUM increased to £8.1 billion (31 March 2015: £7.2 billion). We closed four CLOs in the year, raising AUM of £1.3 billion (2015: £2.2 billion) of CLO AUM before negative investor sentiment around oil and gas, commodities and utilities effectively closed the US CLO market between January and March 2016. The European market, which generally has less exposure to these sectors, was impacted to a lesser degree, although it was effectively also closed for part of calendar Q1 2016. This market volatility has reduced the mark to market valuation of our CLO portfolio but, as long-term holders of CLO equity, our returns are ultimately driven by the cash flows, rather than short-term unrealised fair value movements.

The team continued to make important progress in diversifying the business and launched an open-ended senior debt fund, the Global Income Fund, with US$75 million of seed money from 3i. Both the Global Income Fund and the US Senior Loan Fund outperformed their benchmarks in the year. In total, Debt Management contributed £38 million of fee income (2015: £34 million) to the Group during the year.

One of the key components of our improved financial performance and resilience since 2012 has been a disciplined control over operating expenses. Although we have recruited selectively within our Private Equity and Infrastructure teams to support origination and business development activity, costs remain tightly controlled at 1% of AUM (2015: 1%). Cash income increased by 8% to £171 million (2015: £158 million) due to fee income and distributions from our three businesses. As a result, operating cash profit increased to £37 million (2015: £28 million).

Fragile market conditions create challenges and opportunities

Throughout FY2016, we operated through periods of significant economic, financial and geo-political volatility driven by concerns about Chinese growth and the significant falls in oil and commodity prices. Although the triggering events may change, we expect this volatility to continue to be a feature throughout FY2017 and beyond. This uncertainty is reducing M&A volumes and creates volatility in thin equity markets. Nevertheless, the private equity sector raised over $500 billion of new funds, increasing uninvested capital, or "dry powder", to a record level of $1.3 trillion in 2015 (source: Bain & Company Inc.).

In our Private Equity business, our systematic approach to planning for realisations allows us to be well prepared to maximise value in competitive processes and through the IPO market when conditions allow. The same factors drive our emphasis on the need to remain selective in making new investments. Our strategy of maintaining long-standing geographic teams with strong local relationships means we can often originate investments outside competitive processes and differentiate ourselves with management teams.

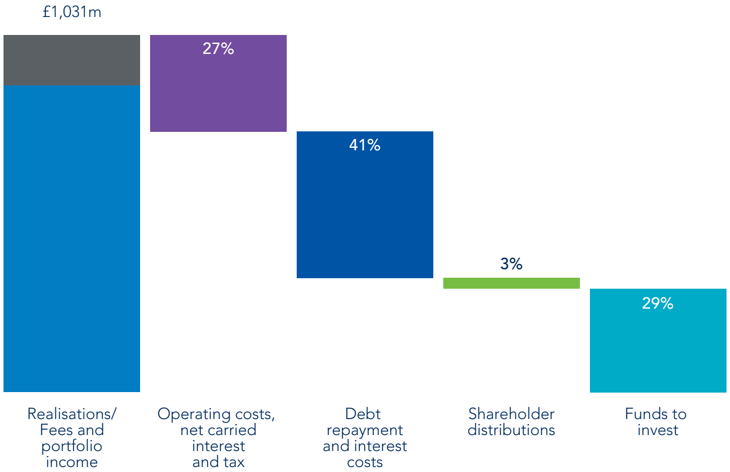
As we do not have the pressure of a future third-party fund mandate and timeline, we can step away from aggressive processes but act with flexibility and speed using our proprietary capital when suitable opportunities that meet our strict investment criteria arise. For example, in December 2015, we were able to move rapidly to secure the acquisition of Audley Travel by using the Group's strong balance sheet to underwrite the debt as well as provide the equity for this fast growing business. After securing the acquisition, we refinanced the debt facilities with a consortium of banks in January 2016.

Finally, our monthly portfolio monitoring process allows us to react promptly and decisively to indications that the wider market uncertainty is having a more direct effect on individual investment strategies, as it is bound to do given current weak growth in many sectors and geographies. This does not mean we can be completely immune to the markets in which we operate, but it substantially reduces the risk of material and realised losses that were a feature of 3i's past.

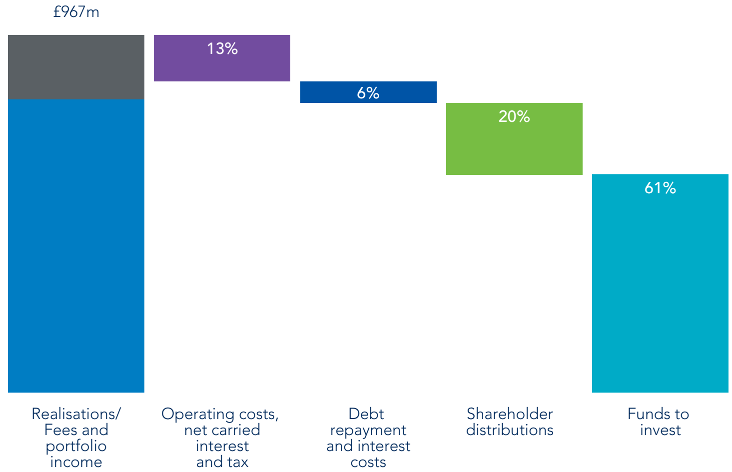
Our Infrastructure team has responded to the low yield environment by resetting its investment strategy away from the larger infrastructure assets and projects, which are attracting investors with lower return expectations. This has created a much more active pipeline of investment opportunities. Debt Management maintains an active trading approach to the underlying credit investments in its funds to minimise the risk of defaults. This, in turn, reinforces its successful credit management track record to support future fund raising.

Cash generation and usage

Average over FY10–FY12



Year to 31 March 2016



Well positioned to deliver good returns to shareholders

We are navigating these challenging market conditions with a conservative and well-funded balance sheet. Our capital allocation approach is unchanged since we announced our strategy in 2012 and the progress we have made in how we use our cash can be seen in the charts above.

The majority of our proprietary capital (83%) is invested in Private Equity. Our planned rate of new investment in Private Equity remains €500–€750 million in four to seven investments per annum. After allowing for this, we expect to remain a significant net divestor throughout the next five years, through a combination of re-shaping the portfolio and, more fundamentally, achieving our objective of generating at least a 2x money multiple on new investments.

We ended the year with a healthy cash position, out of which we will repay the 2017 €331 million bond (2016: £262 million) which matures on 17 March 2017. As we announced separately today, we intend to buy back the bond early to the extent there is investor appetite to do so. We also intend to support 3iN's equity fund raising.

In recognition of this year's strong performance, we have announced an increased total dividend for FY2016 of 22 pence per share (2015: 20 pence per share) and our strong balance sheet and capital allocation approach underpins the enhancement of our dividend policy going forward as set out in the Chairman's statement.

Strategic report

Chief Executive's review

Outlook

Our restructuring and simplified strategy has re-established 3i as a more resilient business both commercially and financially. This clear and consistent approach with its emphasis on active asset management, cash generation and cost control has demonstrated its value over the last 12 months as macro-economic pressures and volatile debt and equity markets dampened market sentiment and challenged individual businesses. As an investment company, we also face the continual increase in financial and governance regulation which is often not appropriate for our specific circumstances and which inevitably leads to further cost and complexity for the Group.

We enter our new financial year with those challenging conditions still in place, but we remain confident that we can deliver another resilient performance. We must maintain our price and cost discipline and use the sector and geographic capabilities within our investment platforms to produce consistently strong returns for our shareholders and investment partners. This approach, along with our strong balance sheet and a proprietorial focus, gives us a fundamental competitive advantage in mid-market private equity and infrastructure investment and underpins our confidence in producing attractive financial returns. The mid-market is limited in the scale of opportunity within it but the breadth of our international platform and the long-term nature of our proprietary capital make 3i an attractive partner for management teams compared to many of our fund-financed competitors.

This was an excellent year for the Group and I would like to thank the 3i team for their good work and rigour. Our disciplined approach, capable investment and management teams and strong balance sheet underpin our objective of delivering mid to high-teens returns to shareholders, accompanied by attractive cash distributions.

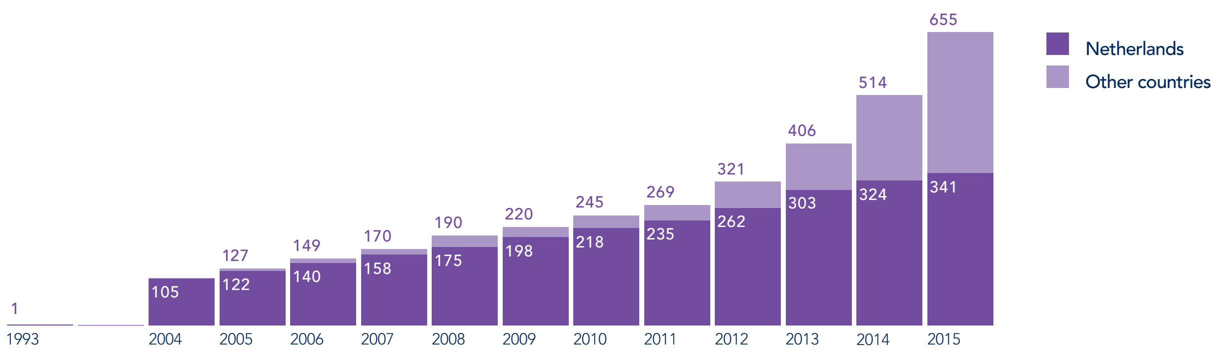
Simon Borrows
Chief Executive

Action highlights

Since its establishment in 1993, Benelux-based Action has grown into the leading European non-food discount retailer with more than 650 stores in six countries and over 29,000 employees. This compares to 245 stores across the Benelux and Germany and more than 7,000 employees when 3i and Funds invested in the business in June 2011. EBITDA has almost tripled from €77 million in 2010 to €226 million in 2015. The business now generates revenues of c.€2.0 billion per annum, up from €600 million. The majority of sales are now outside Action's home country.

Action's business model differs from that of more traditional retailers because only a third of articles are part of its standard range. Large-scale procurement, optimal distribution and a cost-conscious corporate culture ensure very low prices. Action was voted European Retailer of the Year for the second consecutive year in 2015.

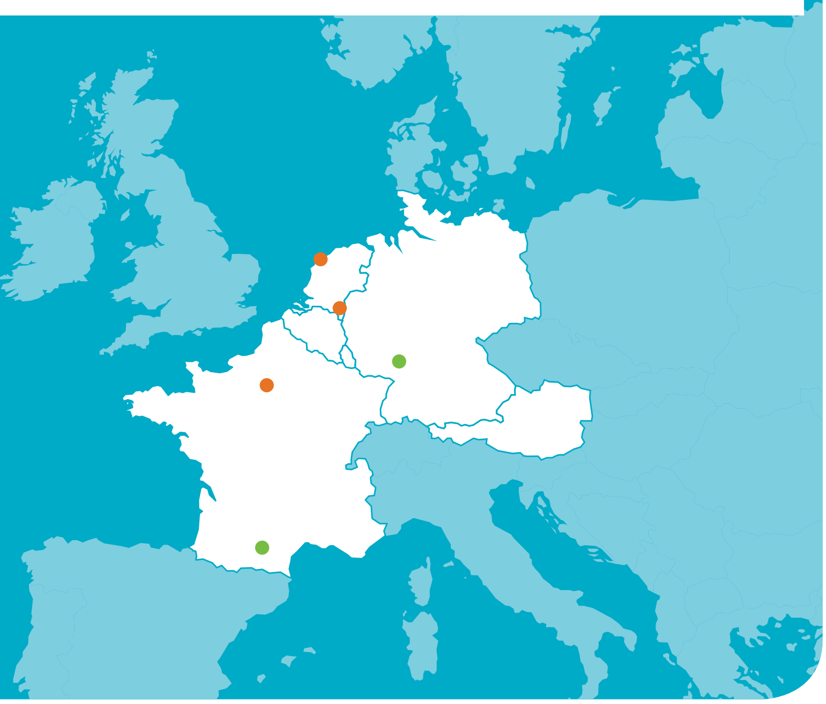
Number of stores



Direct Asian sourcing

International growth across 6 countries

International organisational set up



Distribution centres
Planned distribution centres
Store operations

Strategic report

What we do

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

Our business	Activity	Investments
Private Equity	– **Investment and asset management to generate capital returns** – Investments typically with an Enterprise Value of €100m–€500m at acquisition in our core investment markets of northern Europe and North America – Focused on Consumer, Industrial and Business Services sectors	47 unquoted assets 5 quoted stakes
Infrastructure	– **Investment and asset management to generate capital returns and cash income** – Invest and manage a portfolio of mid-market economic infrastructure businesses, and greenfield and low-risk energy projects – Invest in developed markets, with a focus on the UK and Europe	34% holding in 3iN
Debt Management	– **Fund management and investment to generate recurring cash income** – Launch and manage CLO funds in North America and Europe with an approximate size of US$500m/€400m – Develop and manage senior debt funds that invest in North America and Europe – Invest in CLO equity and seed capital in senior debt funds	£151m in 24 CLO equity investments £58m seed capital in two senior debt funds

What we do

- Our local teams identify investment opportunities in businesses with international growth potential across our core sectors
- Through our international network and our active partnership approach, drawing on our network of specialist business leaders, we support management teams to achieve the full potential of their businesses

£3.7bn
Proprietary Capital value

€6.8bn
3i and Funds value

Read more about Private Equity p18

- We advise 3iN on originating and investing in opportunities in its target sectors
- We manage funds and other third-party capital in complementary sectors, including PPP and infrastructure
- We implement our investment approach through a team of investment professionals based in London and Paris, as well as 3i's wider network of offices

£527m
Proprietary Capital value

£2.4bn
AUM

Read more about Infrastructure p23

- The team manages portfolios of assets from offices in London and New York
- Our core objective is to achieve consistent out performance for debt investors through active portfolio management
- Active trading of credit investments

£229m
Proprietary Capital value

$11.6bn
AUM

Read more about Debt Management p25

Strategic report

How we create value

Our business model

3i's expertise and proprietary capital differentiates its investment proposition and underpins its capability to deliver growth and returns for shareholders.

1

Our resources and relationships

Expert people
Our investment professionals have deep sector knowledge in their core markets. We are committed to offering our people the best training and development opportunities to ensure that they can operate at the highest level.

Network
Essential to support our businesses, we have a well-developed network of business leaders across our chosen markets. Together they assist us to identify opportunities and carry out due diligence, as well as being invaluable to the management of our investee companies.

Strong balance sheet and proprietary capital investment capability
Our strong balance sheet allows us the flexibility to invest in Private Equity and Infrastructure opportunities as well as to support regulatory capital requirements and business development opportunities in Debt Management.

Reputation
An investment company, established for over 70 years, listed on the London Stock Exchange and a member of the FTSE 100.

2

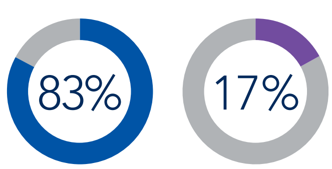
Identify and invest in assets that will meet our return objectives

A disciplined approach to investing underpins our returns

Private Equity

Grow portfolio earnings

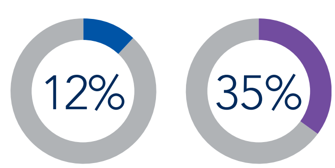
Realisations at 2x cash-to-cash multiples



- 3i Group Proprietary capital portfolio value
- 3i Group Fund management fee income

Infrastructure

Cash income and capital returns from 3iN



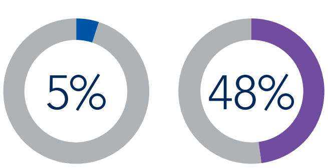
- 3i Group Proprietary capital portfolio value
- 3i Group Fund management fee income

Debt Management

Generate strong cash income through the cycle

Investment process
A strong investment process is the foundation of our reinvigorated business. Our institutional investment platform ensures a centralised approach to making investment and divestment decisions. Robust monthly portfolio monitoring helps us to address issues promptly.

Efficient operating platform
Diversified businesses that generate both income and capital proceeds. Recurring cash income and a disciplined approach to cost management avoid dilution of capital returns.



- 3i Group Proprietary capital portfolio value
- 3i Group Fund management fee income

3

Deliver results

- Strong cash-to-cash returns
- Efficient operating platform that does not dilute shareholder returns
- Robust and flexible capital allocation strategy that is focused on generating long-term capital growth and increasing cash distributions

Our strategic objectives
p14

Strategic report

Our strategic objectives

To increase 3i's competitive advantage, we focus on opportunities where our sector and market expertise, combined with our strong capital position, can create material value for shareholders.

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

2016 progress	2017 outlook	
Weighted average LTM earnings[1] increased by **17%**	– Strongest assets are well positioned in their chosen markets – Macro-economic pressures expected to continue – Planned M&A activity in our newer investments	For further information see the Financial review p36
Private Equity proceeds of **£743m**	– Private Equity expects to remain a net divestor in FY2017 due to a healthy pipeline of realisations and significant amounts of capital chasing limited investment opportunities that may mean that prices move outside our target range	For further information see the Private Equity section of the Business review p20
Operating cash profit of **£37m**	– Subject to market conditions, Debt Management expects to raise further funds in the US and Europe – Continue to focus on generating income from Private Equity – Remain disciplined over costs	For further information see the Financial review p36
Proprietary capital **£4.5bn** Net cash **£165m**	– Subject to available investment opportunities, we plan to invest €500 million – €750 million p.a. in four to seven Private Equity investments – Support 3iN's equity fund raising with an intention to maintain our 34% investment – FY2017 bond repayment of €331 million will be met out of cash resources	
Dividend of **22p**	– Announced updated dividend policy and expect to pay a base dividend of 16 pence per share in respect of FY2017 and an additional dividend based on a share of net realised proceeds	For further information see the Chairman's statement p3

1 Last 12 months ("LTM") earnings in Private Equity companies valued on an EBITA/EBITDA basis (31 companies).

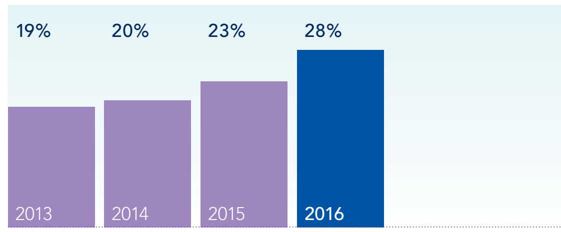
Strategic report

Key performance indicators

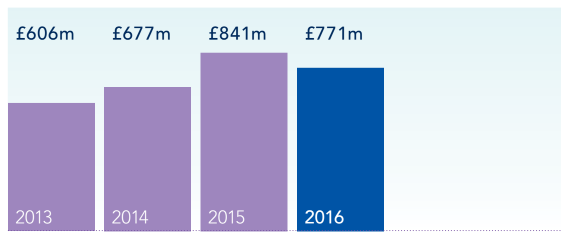
How we performed

For definitions, please see our glossary
p152

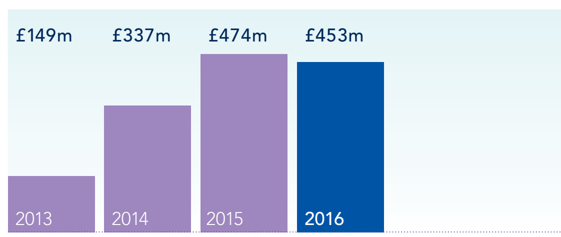
Rationale	Link to strategic objectives
Gross investment return ("GIR") as % of opening portfolio value GIR is how we measure the performance of the proprietary investment portfolio expressed as a percentage of the opening portfolio value.	1 2



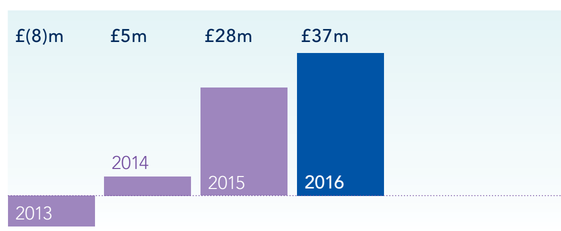
Rationale	Link to strategic objectives
Cash realisations (£m) Cash proceeds representing our proprietary share of investment realisations completed during the year support our returns to shareholders, as well as our ability to invest in new opportunities.	2 5



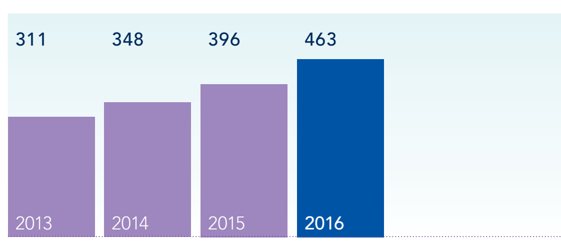
Rationale	Link to strategic objectives
Cash investment (£m) Identifying new opportunities in which to invest proprietary capital is the primary driver of the Group's ability to deliver attractive returns. We also invest further capital in existing investments.	1 4 5



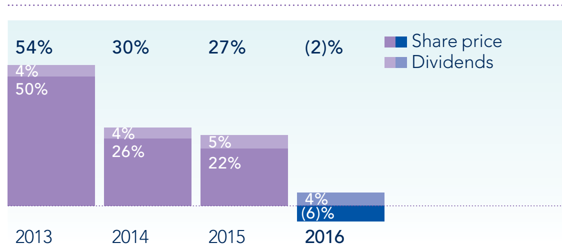
Rationale	Link to strategic objectives
Operating cash profit (£m) By covering the annual cost of running our business with annual cash income, we eliminate the potential dilution of capital returns.	3 5



Rationale	Link to strategic objectives
Net asset value ("NAV") per share (pence) NAV per share is the measure of the fair value of our proprietary investments after the net costs of operating the business.	1 2 3



Rationale	Link to strategic objectives
Total shareholder return ("TSR") (%) TSR measures the return to our shareholders through the movement in the share price and the dividends paid during the year.	5



Read more on our Principal risks
→ p30

For further information on Executive Directors' remuneration, please see
→ p82

2016 progress	Key risks
– Strong performance in Private Equity with GIR of 32% particularly from Action, Scandlines, ATESTEO (formerly GIF) and Basic-Fit – Following two years of substantial foreign exchange translation losses, the weakening of sterling against the euro led to £188m of foreign exchange translation gains on our investment portfolio – Infrastructure and Debt Management contributed valuable cash income to the Group	– Investment rates or quality 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 – Inability to invest in the right people to support our operations – Sterling materially strengthens against the euro and US dollar
– Realised proceeds of £743m (2015: £831m) from the disposal of 12 Private Equity companies, the refinancing of two assets and selling down holdings in four quoted stakes – Received a £51m special dividend from 3iN following its sale of Eversholt Rail	– Subdued M&A activity in our core sectors reduces investor appetite for our assets – Uncertainty around Brexit limits willingness to invest
– Invested £365 million of proprietary capital (2015: £369m), in three new Private Equity investments in our core industrial and consumer sectors, as well as a further investment in ATESTEO – Supported the launch of four CLOs by investing £60m in CLO equity – Provided US$75m of seed capital to Debt Management to launch its Global Income Fund	– High prices reduce the attractiveness of potential investment opportunities – Failure to attract, invest in and retain the right investment executives – Failure to develop our Business Leaders Network – Market volatility, particularly in buyouts, reduces available liquidity to support investment
– Continued improvement in operating cash profit to £37m driven by increase in operating cash income across the business lines – Good levels of dividend income in Private Equity more than offset reduced levels of fee income from managed funds – Increased AUM and CLO equity in Debt Management – Disciplined approach to costs, which remain at 1% of AUM	– Portfolio performance, and therefore portfolio income, is weak – Unplanned increase in the cost base; for example legal, regulatory or compliance costs – Reduction in assets under management in Debt Management – Ability to generate interest and dividends in a Private Equity structure – Investor appetite in a volatile macro-economic environment
– Good progression in NAV per share to 463p, up 17% in the year – Strong gross investment return contribution from Private Equity – Due in part to concerns over a potential Brexit, sterling materially weakened against the euro	– Brexit creates uncertainty and further dampens investor sentiment – Wider G20 political and economic uncertainty impacts 3i's portfolio companies and valuations
– TSR of (2)% as the final FY2015 dividend of 14.0p paid in July 2015 and the interim FY2016 dividend of 6.0p paid in January 2016 were offset by the fall in the share price to 456p at 31 March 2016 (31 March 2015: 482p) – Our continued net divestment activity and strong balance sheet, including a closing net cash position, supported a full year dividend of 22.0p per share (2015: 20.0p)	– Lower NAV due to investment underperformance or political and economic uncertainty – Investor appetite in a volatile macro-economic environment

Strategic report

Business review

Private Equity

Investments in the year

Euro-Diesel

Euro-Diesel was established in 1989 and designs, manufactures and maintains Diesel Rotary Uninterruptible Power Supply ("DRUPS") systems. In particular, Euro-Diesel's unique NO-BREAK KS® DRUPS system ensures that its customers in EMEA, the Americas and Asia Pacific are immediately protected from power supply failures.

3i will support Euro-Diesel to strengthen its market position by expanding its international sales capability, and through continued investment in product innovation, allowing it to maintain its technological leadership position.

For more information visit:

www.euro-diesel.com

Weener Plastic

Weener Plastic is a leading manufacturer of innovative plastic packaging systems for FMCG companies. It focuses on the design, development and manufacturing of value added caps, valve closures and roll-on balls for blue-chip names such as Beiersdorf, Colgate-Palmolive, L'Oréal, Nestlé, P&G, Unilever and Homann.

3i will support management to secure further sustainable growth using its existing innovation-led platform, investing in its successful international expansion strategy and continuing its operational improvement initiatives. 3i will use its international network, experience and capital to support Weener Plastic to pursue a buy-and-build strategy to expand into adjacent product categories and new geographies.

For more information visit:

www.wppg.de

Audley Travel

Audley Travel is a leading provider of tailor-made experiential travel to over 80 destinations worldwide. Audley is renowned for its superior customer service and in-depth destination expertise delivered by its 250 country specialists which drives high levels of repeat customers and referrals.

Founded in the UK in 1996, Audley expanded into the US in 2014. The US business has grown rapidly and is already generating over 10% of Group revenues. 3i will support the Audley team as they build on their market leading position in the UK and use 3i's extensive experience in backing transatlantic businesses to help management accelerate growth in the US business.

For more information visit:
www.audleytravel.com

Strategic report

Business review

Private Equity

"An excellent year with a gross investment return of 32%, good progress on realisations and three important new investments."

Alan Giddins and Menno Antal
Managing Partners and Co-heads of Private Equity

Business performance

Private Equity, the largest contributor to the Group's returns, delivered a strong performance in the year. The gross investment return of £1,011 million, or 32% on the opening portfolio (2015: £719 million, 24%), reflected the robust performance of our largest investments. The portfolio proved its resilience against a backdrop of volatile markets and difficult macro-economic conditions due to its strength and diversified nature. We continue to have no direct exposure to the energy and commodity sectors. The impact of the weak oil and commodity prices remains limited to a small number of assets with indirect exposure, such as JMJ and Dynatect. Weighted average earnings (including the benefit of portfolio acquisitions) increased by 17% in the last 12 months (2015: 19%) reflecting the continued strong growth trajectory in Action, as well as encouraging performance in a number of our newer investments.

Investment activity

The investment activity seen in FY2015 continued throughout FY2016. Although levels of M&A activity have moderated, particularly in the first quarter of the calendar year 2016, valuations remain high as there is still a substantial amount of capital searching for new investment opportunities. Importantly, we maintained our pricing discipline and invested £406 million, of which £365 million was proprietary capital.

We invested in three new businesses in the year; Weener Plastic, Euro-Diesel and Audley Travel. Alongside a co-investor who contributed €50 million, we invested €201 million in Weener Plastic, a manufacturer of plastic packaging systems headquartered in Germany. Euro-Diesel is a leading provider of stand-by diesel power supply systems, based in Belgium, in which we invested €71 million of proprietary capital. In December 2015, we invested £156 million in Audley Travel, a luxury provider of tailor-made travel experiences based in the UK. The initial investment included a £85 million bridging loan whilst Audley's existing facility was refinanced. The loan was repaid in full in January 2016; an excellent example of how our strong balance sheet can facilitate good investments in more volatile debt markets. In addition to these new investments, we also took the opportunity to purchase a minority stake in a 2013 investment, ATESTEO (formerly known as GIF) from the founding family.

Table 1: Private Equity cash investment in the year to 31 March 2016

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m
Weener Plastic	New	Manufacturer of innovative plastic packaging systems	Aug 15	183	144
Euro-Diesel	New	Manufacturer of uninterruptible power supply systems	Sep 15	53	52
Audley Travel	New	Provider of tailor-made experiential travel	Dec 15	159	156
ATESTEO	Further	International transmission testing specialist	Aug 15	12	11
Other	Further	n/a	n/a	(1)	2
Total Private Equity investment				**406**	**365**

Realisations activity

Market conditions were favourable for realisations in the first half of the 2015 calendar year, which enabled us to continue to divest 11 of our smaller or older assets. As we continue to reshape the portfolio, we expect more of our future realisations will be driven by our larger, stronger assets. In December 2015, we announced the disposal of Element at a euro money multiple of 4.5x (3.9x in sterling).

Realisations and refinancings generated aggregate proceeds of £743 million (2015: £831 million) in the year. Excluding refinancings of £185 million, which are usually recognised primarily as a repayment of shareholder loans or capital and therefore do not generate a material increase in value, this represented an uplift over opening value of £67 million, or 14% (2015: £144 million, 27%). The lower uplift reflects the fact that the majority of disposals were smaller or non-core assets, held on an imminent sales basis at 31 March 2015, or were from the quoted portfolio.

At 31 March 2016, there were 47 assets and five quoted stakes in the portfolio, down from 61 assets and four quoted stakes at 31 March 2015, and we remain on track to meet our longer-term objective of holding fewer than 40 Private Equity investments.

Table 2: Private Equity realisations in the year to 31 March 2016

Investment	Country/ region	Calendar year invested	31 March 2015 value[1] £m	3i realised proceeds £m	Profit/(loss) in the year[2] £m	Uplift on opening value[2] %	Residual value £m	Money multiple over cost[3]	IRR
Full realisations									
Element	Benelux	2010	145	179	36	25%	–	3.9x	31%
Azelis	Benelux	2007	62	63	1	2%	–	1.1x	1%
Labco	France	2008	36	42	6	17%	–	0.7x	(6)%
Touchtunes	USA	2011	39	40	1	3%	–	2.2x	23%
Soyaconcept	Nordic	2007	16	17	–	–%	–	2.0x	13%
Blue Interactive	Brazil	2012	14	12	1	9%	–	0.4x	(22)%
Boomerang	Spain	2008	7	11	4	57%	–	0.6x	(8)%
Consultim	France	2007	12	10	(2)	(17)%	–	1.5x	6%
Inspecta	Nordic	2007	6	6	1	20%	–	0.1x	(40)%
Other investments	n/a	n/a	4	11	6	n/a	–	n/a	n/a
Partial realisations[1,3]									
Quintiles	USA	2008	50	53	3	6%	92	3.1x	23%
Scandlines	Denmark/ Germany	2007/2013	38	38	–	–%	369	3.2x	29%
Eltel	Nordic	2007	31	30	(1)	(3)%	20	1.0x	(1)%
UFO Moviez	India	2007	14	17	3	21%	12	2.6x	14%
Refresco Gerber	Benelux	2010	9	11	2	22%	44	1.8x	12%
Other investments	n/a	n/a	10	11	1	n/a	63	n/a	n/a
Refinancings									
Action	Benelux	2011	168	168	–	–%	902	11.6x	80%
Geka	Germany	2012	15	17	2	13%	55	1.3x	6%
Deferred consideration									
Other investments	n/a	n/a	2	7	5	n/a	n/a	n/a	n/a
Total Private Equity realisations			**678**	**743**	**69**	**10%**	**1,557**	**2.6x**	**n/a**

1 For partial realisations, 31 March 2015 value represents value of stake sold.
2 Cash proceeds in the period over opening value realised inclusive of foreign exchange.
3 Cash proceeds over cash invested. For partial realisations and refinancings, valuations of any remaining investment are included in the multiple. The sterling multiple includes the impact of foreign exchange, where appropriate.

Strategic report

Business review

Private Equity

Assets under management

Total AUM decreased to £3.5 billion in the year (31 March 2015: £3.8 billion), principally due to the continued net divestment activity. Encouragingly, the performance of Eurofund V ("EFV") and the Growth Capital Fund continued to improve, with gross money multiples at 31 March 2016 of 1.7x and 1.8x respectively (31 March 2015: 1.4x, 1.7x). The investments made in EFV's 2010–2012 investment period continue to show very strong performance, with a money multiple of 3.4x at 31 March 2016 (31 March 2015: 2.6x). The Growth Capital Fund benefited from the realisation of Labco and further disposals of Quintiles, a quoted holding. The value of 3i's Proprietary Capital increased to £3.7 billion in the year (31 March 2015: £3.1 billion) and, inclusive of third-party funds, increased to €6.8 billion (31 March 2015: €6.3 billion).

We concluded a review of our resources and investment opportunities during the year. As a result, we are planning for a reduction in our Nordic team while we seek to increase the size of the investment teams in some of our key geographies in Europe and the US.

Outlook

We remain focused on the investment pipeline for FY2017, sourcing attractive opportunities through our international team and network of advisers and business leaders, whilst maintaining price discipline. Conditions for M&A are expected to remain volatile and, whilst our portfolio companies cannot be immune to macro-economic pressures, our rigorous investment process and active portfolio management approach allows us to address such issues promptly.

Table 3: Private Equity assets under management at 31 March 2016

Private Equity	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment[1] at March 2016	% invested at March 2016	Gross money multiple[2] at March 2016	AUM	Fee income received in the year £m
3i Growth Capital Fund	Mar 10	€1,192m	€800m	€346m	53%	1.8x	€266m	2
3i Eurofund V	Nov 06	€5,000m	€2,780m	€116m	94%	1.7x	€1,809m	9
3i Eurofund IV	Jun 04	€3,067m	€1,941m	€82m	95%	2.3x	€533m	–
Other	Various	Various	Various	n/a	n/a	n/a	£1,370m	2
Total Private Equity AUM							**£3,512m**	**13**

1 All funds are beyond their investment period.
2 Gross money multiple is the cash returned to the fund plus remaining value as at 31 March 2016, as a multiple of cash invested.

Infrastructure

West of Duddon Sands Offshore Transmission Owner

In August 2015, 3iN invested £23 million in a 50% holding in the West of Duddon Sands Offshore Transmission Owner ("WODS OFTO") project. This project involves the acquisition, financing and operation of power transmission cables and associated electrical equipment connecting the West of Duddon Sands offshore wind farm, located off the coast of Cumbria in the Irish Sea, to the onshore grid. The project operates under a licence awarded by Ofgem, the UK's electricity regulator, with a 20-year revenue entitlement period, providing predictable cash flows over the period.

As Investment Adviser to 3iN, 3i used its extensive experience in managing OFTO investments, gained through the acquisition of the Barclays European Infrastructure business in November 2013, to complete the transaction.

> "Infrastructure had a busy year in terms of business activity, demonstrating our ability to access attractive investment opportunities in a competitive market."
>
> Ben Loomes and Phil White
> Managing Partners and Co-heads of Infrastructure

The Infrastructure business performed well in the year, building on the strong result in FY2015 driven by the sale of 3iN's holding in Eversholt Rail. Infrastructure delivered a gross investment return of £47 million, or 8% on the opening portfolio (2015: £96 million, 20%). The business generated cash income of £49 million through its fund advisory and management activities and dividends received from 3iN (2015: £47 million). In addition, 3i received a £51 million special dividend from 3iN (2015: nil) following 3iN's sale of Eversholt Rail.

Investment Adviser to 3iN

To reflect the compression in market returns and the evolution of the composition of 3iN's underlying investment portfolio, 3iN's total return target was updated to between 8% and 10% to be delivered over the medium term (previously a 10% annual target) in May 2015. Given the competition for large core assets in the global infrastructure sector, the team has focused on sourcing mid-market economic infrastructure and greenfield projects across Europe. The team made good progress against these revised objectives and advised 3iN on four new investments in its target markets totalling £193 million (2015: £114 million) as well as the £75 million investment in Wireless Infrastructure Group, the c.£154 million investment in TCR and the c.£4 million investment in Hart van Zuid announced in April 2016. On 12 May 2016, 3iN announced its intention to raise new equity of up to £350 million to fund new investments and its future pipeline.

3iN has built an attractive portfolio of economic infrastructure assets across Europe which performed well and generated a strong total return of 14% in FY2016. In particular, the portfolio valuation benefited from positive regulatory developments for Elenia, an electricity distribution and district heating company based in Finland. This performance builds on the strong long-term performance of 3iN, which has delivered an annualised total shareholder return of 11.3% since its IPO in 2007.

Under the terms of the advisory agreement, 3i received an advisory fee of £16 million (2015: £16 million) and a NAV based performance fee of £20 million (2015: £45 million) from 3iN, of which £15 million (2015: £34 million) was accrued as payable to the team.

Strategic report

Business review

Infrastructure

Business performance

3iN performance

In addition to being its investment adviser, 3i holds a 34% (31 March 2015: 34%) stake in 3iN. Reflecting its strong positioning, 3iN's share price continued to perform well in a year of equity market volatility and generated a total shareholder return of 13%.

3i's investment in 3iN contributed £33 million of unrealised value (2015: £77 million) and £21 million of dividend income (2015: £20 million). In July 2015, 3iN also paid a £150 million special dividend to shareholders, following its sale of Eversholt Rail. 3i's share of the special dividend, £51 million, was treated as realised proceeds.

Assets under management

The Infrastructure AUM decreased to £2.4 billion (31 March 2015: £2.5 billion) principally due to the payment of the special dividend from 3iN. In addition, the performance of the assets in the India Infrastructure Fund remained weak; the economic environment and ongoing depreciation of the rupee against the US dollar, in which the fund is denominated, resulted in a £11 million reduction in the value of 3i's direct share of the 3i India Infrastructure Fund to £53 million (31 March 2015: £64 million).

Outlook

The team's focus on origination and asset management capabilities together with a healthy pipeline of attractive investment opportunities across our target markets means that the business remains well placed to continue its current good performance and to grow its assets under management through selective investment.

Table 4: Infrastructure assets under management at 31 March 2016

	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2016	% invested at March 2016	Gross money multiple[1] at March 2016	AUM	Fee income received in the year £m
3iN	Mar 07	n/a	n/a	n/a	n/a	n/a	£1,248m[2]	16
BIIF	May 08	£680m	n/a	n/a	90%	n/a	£580m	5
BEIF II	Jul 06	£280m	n/a	n/a	97%	1.1x	£80m	2
India fund	Mar 08	US$1,195m	US$250m	US$35m	73%	0.5x	US$584m[3]	4
Other	Various	Various	Various	n/a	n/a	n/a	£145m	1
Total Infrastructure AUM							**£2,406m**	**28**

1 Gross money multiple is the cash returned to the fund plus remaining value as at 31 March 2016, as a multiple of cash invested.
2 Based on latest published NAV (ex-dividend).
3 Adjusted to reflect 3iN's US$250 million share of the fund.

Debt Management

3i Global Floating Rate Income Fund ("Global Income Fund")

The Global Income Fund launched in June 2015 with US$75 million of seed capital from 3i and total assets under management of US$150 million. It aims to generate income, preserve capital for investors and seeks capital appreciation when market opportunities arise.

The Global Income Fund is managed jointly by 3i's London and New York teams, and this supports investment in a diverse global portfolio of corporate credit assets, with exposure principally to North American and western European issuers. The teams seek to take advantage of relative value between assets, sectors and geographies, and aim to protect against downside risk and maintain portfolio diversity. At 31 March 2016, the fund had assets under management of US$188 million and had outperformed its benchmark by over 2% since inception.

For more information visit:
www.3i.com/our-business/debt-management/funds/3i-global-floating-rate-income-fund

"A solid year with four new CLOs and a new fund launch, despite volatility in the credit markets."

Jeremy Ghose
Managing Partner and CEO, 3i Debt Management

Business performance

The Debt Management team continued to make good progress in fund raising despite more volatile conditions for CLO issuance. AUM increased to £8.1 billion (31 March 2015: £7.2 billion) as good levels of fund raising activity and favourable foreign exchange rates more than offset the impact of the run off of older funds. An important source of operating cash income, the business generated £38 million of fee income in the year (2015: £34 million) and portfolio income of £35 million (2015: £21 million).

The pricing of debt instruments has been subject to significant volatility since the middle of 2015, particularly in the US, due to increased credit concerns about specific sectors such as oil and gas, metals and mining, energy and utilities. The European market, which generally has more limited exposure to oil and gas and metals and mining, experienced less volatility. As long-term holders of CLO equity positions, our returns are ultimately driven by the cash flows and the realised default and loss rates in the portfolio, rather than short-term unrealised fair value movements, but we remain subject to the impact of mark-to-market volatility.

Strategic report

Business review

Debt Management

Fund raising activity

Debt Management made good progress, particularly in the first half of our financial year, in generating new AUM. The team closed two CLOs in Europe, Harvest XII and Harvest XIV, and two in the US, Jamestown VII and Jamestown VIII, raising a total of £1.3 billion new CLO AUM. CLO issuance slowed significantly in the second half of our financial year. US CLO issuance in the three months to 31 March 2016 was 25% of the prior year CLO volumes. However, following an improvement in sentiment from March 2016, prices are recovering and our latest European CLO, Harvest XV, priced at the end of March and closed on 12 May 2016. We also had an open CLO warehouse vehicle in the US in anticipation of launching the first US CLO of FY2017.

Following on from the successful launch of the European Middle Market Loan Fund, we continued to diversify our product offering and launched a new Global Income Fund with US$75 million of seed capital from 3i. The fund is an open-ended senior debt fund that invests across the US and Europe and, as at 31 March 2016, had AUM of US$188 million. The US Senior Loan Fund also continued to perform strongly, outperforming its benchmarks, and AUM increased to US$178 million (31 March 2015: US$157 million).

Proprietary Capital investment

Including the US$75 million seed capital contributed to the Global Income Fund, we had £229 million (31 March 2015: £176 million) of proprietary capital invested in the Debt Management business at 31 March 2016. 3i is required to hold a minimum 5% stake in the European CLOs it manages. We also structure our US CLOs in anticipation of the implementation of similar risk retention rules in the US in December 2016. Our ability to comply with the risk retention rules is important as it is now a prerequisite for managers, even in the US, to demonstrate compliance with the regulatory rules.

In addition to the investments 3i makes in the CLOs for regulatory reasons, 3i is also the first loss investor in the majority of the warehouse facilities used to accumulate loans prior to the launch of a CLO. At 31 March 2016, the total invested by 3i in these facilities was £17 million (31 March 2015: £43 million).

Table 5 details cash investment in the year.

Table 5: Debt Management cash investment in the year to 31 March 2016

Investment	Type	Date	Total 3i investment £m
Global Income Fund	Open-ended senior debt fund	Jun 15	48
Harvest XII	New European CLO	Aug 15	15
Jamestown VII	New US CLO	Aug 15	15
Harvest XIV	New European CLO	Nov 15	28
Jamestown VIII	New US CLO	Dec 15	5
Jamestown III	Further investment in US CLO	Mar 16	4
European warehouses[1]	Warehouse	Various	(39)
US warehouse	Warehouse	Various	10
Other	n/a	Various	2
Total Debt Management investment			**88**

1 Net cash received back from warehouses on the successful close of the European CLOs.

Outlook

The underlying credit performance of the portfolios underpinning our CLOs and other funds remains sound, with metrics outperforming market benchmarks despite the challenging year. Given our strong relationships with investors and ability to meet current and future fund risk retention requirements, we are in a good position to continue launching new CLOs and raising funds, if market conditions permit and returns are sufficiently attractive.

Strategic report

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.

In order to support its institutional asset management capability, 3i's risk appetite policy 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. In addition, all staff are assessed on their compliance with the Group values as part of their annual appraisal.

The following sections explain how we control and manage the risks in our business. It outlines 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

3i's risk appetite is defined by its objective to invest proprietary capital in assets that generate sufficient proceeds to fund new opportunities and allow material shareholder distributions as well as good levels of cash income.

Investment risk

The substantial majority of the Group's capital is invested in Private Equity. Private Equity investments are subject to a range of factors which include:

- Return objective: individually assessed but subject to a target 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
- Vintage: invest c.€500 million–€750 million per annum in four to seven new investments in companies with an enterprise value range of €100 million–€500 million at investment

Our other two businesses are more modest users of proprietary capital but each investment is subject to rigorous review.

Capital management

3i adopts a conservative approach to managing its capital resources. There is no appetite for significant structural gearing at the Group level although short-term tactical gearing will be used. In addition, we have a limited appetite for the dilution of capital returns as a result of operating and interest expenses. All three of our business lines, Private Equity, Infrastructure and Debt Management also generate cash income to mitigate this risk.

3i Group's Pillar 3 document can be found at
www.3i.com

Strategic report

Risk management

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 75 to 78.

Risk governance structure

Overview of risk management framework and governance structure

Treasury Transactions Committee

- Considers risk implications of specific treasury transactions as required.
- A quorum of members meet as required.

Board

- Determines the Group's risk appetite as part of strategy setting.
- Overall responsibility for maintaining a system of internal controls that ensures an effective risk management and oversight process operates across the Group.
- Considers risks to the Group's brand, values and reputation as required.
- Meets at least six times a year.

Audit and Compliance Committee

- Receives reports from the Head of Internal Audit on the Group's risk management processes and system of internal controls.
- Receives reports from the Head of Group Compliance on regulatory and compliance matters.
- Receives reports from the Head of Tax on Group tax management.
- Updated at each meeting on the outputs of the latest Group Risk Committee meeting with the opportunity to contribute views or raise questions.
- Meets at least four times a year.

Chief Executive

Investment Committee

- Considers risk in the context of individual investments, portfolio management decisions and divestments.
- Meets as required.

Executive Committee

- Principal decision-making body in respect of managing the business.
- Meets monthly.

Group Risk Committee

- Delegated responsibility for risk management and oversight across the Group, reflecting the Board's appetite for risk and any specific limits set.
- Maintains the Group risk review, which summarises the Group's risk exposure and associated mitigation or response plan based on risks identified.
- Meets four times a year to consider the Group risk review, including adequacy of risk mitigation and controls.
- Chairman provides update at each meeting of the Audit and Compliance Committee.

Conflicts Committee

- Deals with potential conflict issues.
- Meets as required.

Committees of the Board

Committees of the Chief Executive

Independent review of potential conflict issues

--- Risk reporting to Audit and Compliance Committee

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, 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 2016.

The risk framework is further augmented by a separate Risk Management Function which has specific responsibilities under the European Alternative Investment Fund Managers Directive ("AIFMD"). 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 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 79 to 81.

In addition to the above, a number of other committees contribute to the Group's overall risk governance structure, as set out on page 28.

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; 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 79.

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, Infrastructure and Debt Management.

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:

- Financial performance and strategic dashboards
- Vintage control and asset allocation analysis
- Macro-economic and M&A market overview
- Liquidity management
- Capital adequacy, including stress testing
- Operating expenses
- Portfolio performance reports for Private Equity, Infrastructure and Debt Management
- Risk reports for managed AIFs
- Quarterly Group risk log

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

The GRC uses the above to identify a number of key risks. It then evaluates the impact and likelihood of each key 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 FY2016, the GRC covered the update to the Group's IT strategy; 3i's approach to ESG especially with respect to its portfolio companies; business continuity and cyber security; an update on the implementation of Infrastructure's revised strategy, as well as the changes to the UK Corporate Governance Code and relevant risks for 3i associated with the UK EU referendum.

There were no significant changes to the Group's approach to risk governance or its operation in FY2016 but we have continued to refine our framework for risk management and reporting where appropriate.

Further details on 3i's approach as a responsible investor are available at **www.3i.com**

Strategic report

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.

The Group's risk profile and appetite remain broadly stable. Although the economic outlook deteriorated and market volatility and uncertainty increased in the second half of our financial year, the Group's overall risk profile has not changed significantly. The Group believes that its consistent strategy of focusing on core sectors and geographies, its institutional process-led approach to investment and strong culture have helped it to maintain its stable risk profile. A number of risks have been consolidated year on year in the Principal risks and mitigations table to best reflect their impact on the Group.

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, including the UK referendum on EU membership. In addition, there is also some evidence of softening of US and Eurozone growth rates. The Group continues to monitor all of these events closely.

The Group is subject to a range of regulatory and tax reporting requirements which continue to evolve. These include the AIFMD, regulations under the European Market Infrastructure Regulation ("EMIR"), Capital Requirements Directive IV ("CRDIV"), the FCA's Client Asset rules ("CASS"), the Foreign Account Tax Compliance Act ("FATCA") and the OECD's Common Reporting Standard. These developments have resulted in increased reporting requirements, operational complexity and operational cost to the business. Managing these regulatory requirements is a key priority and they are the subject of regular updates to Executive Committee and the Board. To date, they have had limited practical impact on 3i's ability to deliver its strategy.

Looking forward, although the Base Erosion and Profit Shifting ("BEPS") proposals have now been published, it is not clear how individual countries will implement these proposals and the timing and extent of implementation as they do. The UK is already in the process of changing its domestic tax rules and implementing certain BEPS actions such as country-by-country reporting and limiting the tax deductibility for interest expense. The OECD has indicated that further detail on some of the proposals will be published in 2016. The Group continues to monitor developments carefully and intends to comply with new rules as and when they are implemented.

Investment

Being an investment company, there are a number of significant risks that impact our ability to achieve our strategic objectives. Firstly our ability to source attractive investment opportunities at the right price is critical. The investment case presented at the outset will include the expected benefit of operational improvements, growth initiatives and M&A activity that will be driven by our active management approach, 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 our monthly portfolio monitoring and our semi-annual reviews which focus on longer term and strategic developments. Alongside this we need to recognise the need to plan and execute a successful exit at the optimum time for the portfolio company's development after taking account of market conditions. These risks are closely linked to the economic environment noted above. To mitigate these risks, we focus on sectors and geographies where our expertise and network can drive significant outperformance.

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 hold a detailed monthly portfolio monitoring meeting that 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.

Infrastructure

3iN announced an amended total return target of 8% – 10% per annum over the medium term in May 2015 (previously a 10% annual target) as strong investor demand for yield was impacting the business' ability to maintain investment rates in quality assets. Infrastructure remains focused on investing selectively within its target sectors and developing both organic and inorganic growth opportunities. In addition, its engaged asset management approach supports many of the investments in the economic infrastructure and project portfolios.

Debt Management

The principal risks are the ability to grow AUM profitably in line with its business plan and to mitigate negative impact on returns. The business is exposed to volatility in the credit markets and the challenging market conditions in the US have negatively impacted valuations of our CLO equity in FY2016. Our teams manage the underlying credit portfolios very actively which, in some cases, might include taking early losses in volatile markets, if appropriate. Due to the introduction of risk retention rules in Europe (effective 2011) and the US (effective December 2016), we are required, as managers, to take minimum positions in the CLO funds we manage. In addition, during the warehouse phase of establishing CLOs, the Group is exposed to market volatilities and the potential for further capital calls.

Operational

One of the key areas of increased potential operational risk is cyber security. In response to this growing threat, management engaged KPMG to conduct an independent review of the adequacy of the Group's ability to prevent, detect and respond to cyber security threats. In addition, the Group rolled out a cyber security training course for all staff and refreshed information security policies and incident management processes. The Group also conducted a wider review of its business continuity and resilience capabilities. The findings and proposed enhancements from these various workstreams were discussed at GRC and are being implemented across the Group.

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 2015.

Viability statement

The Directors have assessed 3i's viability over a three-year period to March 2019. 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, Internal Capital Adequacy Assessment Process ("ICAAP") and associated principal risks (as set out on pages 32 to 35 of the Strategic report) are the foundation of the Directors' assessment.

The Directors reviewed an assessment of the potential effects of 3i's principal risks on its current portfolio and forecast investment and realisation activity. They considered the consequent impact on 3i's capital and liquidity in a number of severe but plausible scenarios.

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 March 2019.

Strategic report

Principal risks and mitigations

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	1 Grow investment portfolio earnings 2 Realise investments with good cash-to-cash returns	– Limited growth or reduction in NAV owing to contraction of earnings and/or valuation multiples in Private Equity or Infrastructure – Impact on investment rates and realisations – Impacts general market confidence and lowers risk appetite – Leads to reduced M&A volumes, economic instability and lower growth
Significant currency movements and volatility	1 Grow investment portfolio earnings 5 Increase shareholder distributions	– Unhedged foreign exchange rate movements impact total return and NAV – May impact portfolio performance
Increased volatility in equities and fixed income	1 Grow investment portfolio earnings 2 Realise investments with good cash-to-cash returns 5 Increase shareholder distributions	– Increases risks with IPO exit route and bank financing – Potential for large equity market fall to impact valuations and performance
Subdued M&A activity and high pricing in 3i's core markets	2 Realise investments with good cash-to-cash returns 4 Use our strong balance sheet 5 Increase shareholder distributions	– Investment and realisation levels fall – Reduces capacity to invest and pay enhanced shareholder distributions – Results in lack of primary deal flow in the US and European debt markets
Impact of new regulations on 3i's new and existing business	3 Maintain an operating cash profit	– Regulatory constraints on possible future business development and increased operating costs – Complexity increases risk of non-compliance, with possible financial or reputational consequences

Risk management and mitigation	Movement in risk status in 2016	2016 outcome
– Monthly portfolio monitoring to address any portfolio issues promptly – Regular monitoring of liquidity and balance sheet – Regular assessment of exposures to geo-political risk across the Group's investment portfolio and investment pipeline	↔	– GIR good at 28% with impact from negative macro-economic and geo-political uncertainty on 3i and its portfolio companies offset by robust performance in largest investments – Gearing remains nil and liquidity strong at £1.4bn – Potential implication of the EU referendum reviewed at Executive Committee and GRC
– Consideration of FX exposures in investment cases – Monitoring of asset exposures by currency at Group and portfolio company level – Specific short-term hedging on entry or exit of investments considered on a case by case basis	↔	– Positive FX impact on NAV – FX exposures at the portfolio company level monitored and hedged appropriately
– Focus on exit pipeline and refinancing strategies – Dedicated banking team to manage and monitor bank relationships – Close monitoring of Private Equity performance and valuations and capital at risk in Debt Management	↔	– Realised £111m from continued sales of quoted stakes when the markets permitted and completed the IPO of UFO – Quoted asset exposure of 15% with 10% being 3iN (13% TSR in the year) – Policy to adjust multiples to reflect longer-term trends mitigated volatility in FY2016
– Active management of exit strategies by Investment Committee to adapt to market conditions – Regular monitoring of new investment work in progress and market activity	↔	– Markets were supportive in the first half of the year. We disposed of 11 smaller assets as well as Element in December 2015 – Invested in three new Private Equity companies
– Detailed evaluation of business impact and alternate structures – Appropriate processes, procedures and additional resource as required to support compliance – Direct engagement with regulators' consultations	↓	– Changes in UK and EU regulatory and tax regimes, including BEPS, are resulting in additional operational complexity and cost to the Group – No significant practical constraints during the year on the ability to deliver strategy but increased external reporting

↑ Risk exposure has increased ↔ No significant change in risk exposure ↓ Risk exposure has decreased

Audit and Compliance Committee report
p75

Strategic report

Principal risks and mitigations

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	4 Use our strong balance sheet 5 Increase shareholder distributions	– Impacts longer-term returns and capital management and therefore ability to deliver strategic plan – Poor investment impacts Group's reputation and ability to attract investors
Portfolio performance is weak or is impacted by a significant ESG incident	1 Grow investment portfolio earnings 2 Realise investments with good cash-to-cash returns 5 Increase shareholder distributions	– Reduction in NAV and realisation potential – Increased covenant risk in weaker companies

Operational

Key risk factors	Link to strategic objectives	Potential impact
Organisational development, for example people changes	2 Realise investments with good cash-to-cash returns 3 Maintain an operating cash profit 5 Increase shareholder distributions	– Poor execution of changes impacts delivery of strategic objectives – Potential to undermine investor and/or shareholder confidence
Increase in cyber security threats	1 Grow investment portfolio earnings 2 Realise investments with good cash-to-cash returns 4 Use our strong balance sheet 5 Increase shareholder distributions	– Potential loss of operation of core systems or sensitive data – Disruption to our business and that of our portfolio companies – Inability to deliver strategic plan

Risk management and mitigation	Movement in risk status in 2016	2016 outcome
– Regular monitoring of investment and divestment pipeline – Close oversight by management and early involvement of Investment Committee when key targets identified – Disciplined approach to sourcing investment opportunities – Regular review of asset allocation	↔	– Substantial amounts of capital chasing yield but invested in three new investments and generated £743m of proceeds in Private Equity – Significant increase in origination activity in Infrastructure with four new investments
– Focus on ESG in investment case and at semi-annual Portfolio Company Reviews – Active management of new portfolio company chairman, CEO and CFO appointments – Dedicated banking team to manage and monitor bank relationships	↓	– Weighted average LTM earnings growth of 17% – Smaller investment portfolio by number allows for more targeted approach to RI/ESG risk evaluation
– Capability and succession planning reviews – Regular updates on progress of change projects to GRC and/or the Board	↔	– Organisational capability and succession plan reviewed by the Board in September 2015
– Regular monitoring and engagement with external advisers to determine best practice	↑	– Cyber security review completed with external advisers and agreed actions in progress – Cyber security review completed with external advisers also completed on 21 portfolio companies across Private Equity and Infrastructure

↑ Risk exposure has increased ↔ No significant change in risk exposure ↓ Risk exposure has decreased

Audit and Compliance Committee report
p75

Strategic report

Financial review

"Another year of robust results with each business continuing to perform well."

Julia Wilson
Group Finance Director

The table below summarises our key financial data under the Investment basis.

Table 6: Summary financial data

Investment basis	**Year to/as at 31 March 2016**	Year to/as at 31 March 2015
Group		
Total return	**£824m**	£659m
Total return on opening shareholders' funds	**21.7%**	19.9%
Dividend per ordinary share	**22.0p**	20.0p
Operating expenses	**£134m**	£131m
As a percentage of assets under management	**1.0%**	1.0%
Operating cash profit	**£37m**	£28m
Proprietary capital return		
Realisation proceeds	**£796m**	£841m
Uplift over opening book value[1]	**£70m/13%**	£145m/27%
Money multiple	**2.4x**	2.0x
Gross investment return	**£1,069m**	£805m
As a percentage of opening 3i portfolio value	**27.6%**	22.6%
Operating profit[2]	**£920m**	£721m
Proprietary capital balance sheet		
Cash investment[3]	**£453m**	£474m
3i portfolio value	**£4,497m**	£3,877m
Gross debt	**£837m**	£815m
Net cash	**£165m**	£49m
Gearing[4]	**nil**	nil
Liquidity	**£1,352m**	£1,214m
Net asset value	**£4,455m**	£3,806m
Diluted net asset value per ordinary share	**463p**	396p
Fund management		
Total assets under management	**£13,999m**	£13,474m
Third-party capital	**£10,703m**	£10,140m
Proportion of third-party capital	**76%**	75%

1 Uplift over opening book value excludes refinancings.
2 Operating profit for the proprietary capital activities excludes performance fees payable/receivable.
3 Cash investment includes £4 million of Debt Management investment awaiting settlement at 31 March 2016 (31 March 2015: nil).
4 Gearing is net debt as a percentage of net assets.

Basis

3i prepares its statutory financial statements in accordance with IFRS. The introduction of IFRS 10 in 2014 was important for investment companies such as 3i, as the investment entity exception it contained eliminated the risk of having to consolidate portfolio investments. However, consistent with previous years, we also report using a non-GAAP "Investment basis", as we believe it aids users of our report to assess the Group's underlying operating performance. Total return and net assets are the same under the Investment basis and IFRS and we provide more detail on IFRS 10, as well as a reconciliation of our Investment basis financial statements to the IFRS financial statements, from page 48.

Total return

The Group generated a total return of £824 million, or a profit on opening shareholders' funds of 21.7% (2015: £659 million or 19.9%) in the year as the robust performance of its underlying portfolio more than offset the impact of volatile market conditions. The Proprietary Capital business delivered a gross investment return of £1,069 million (2015: £805 million) and an operating profit before carry of £920 million (2015: £721 million), underpinned by the strong performance of its portfolio companies as well as by the strengthening of the euro and US dollar against sterling. Fund Management operating profit before carry was £20 million (2015: £26 million). Further detail regarding the performance during the year is provided below.

Table 7: Total return for the year to 31 March

Investment basis	**2016 Proprietary Capital £m**	**2016 Fund Management £m**	**2016 Total £m**	2015 Proprietary Capital £m	2015 Fund Management £m	2015 Total £m
Realised profits over value on disposal of investments	**72**	**–**	**72**	162	–	162
Unrealised profits on revaluation of investments	**669**	**–**	**669**	684	–	684
Portfolio income						
Dividends	**71**	**–**	**71**	45	–	45
Income from loans and receivables	**63**	**–**	**63**	62	–	62
Fees receivable	**6**	**–**	**6**	6	–	6
Foreign exchange on investments	**188**	**–**	**188**	(154)	–	(154)
Gross investment return	**1,069**	**–**	**1,069**	805	–	805
Fees receivable from external funds	**–**	**79**	**79**	–	80	80
Synthetic fees	**(44)**	**44**	**–**	(45)	45	–
Operating expenses[1]	**(31)**	**(103)**	**(134)**	(32)	(99)	(131)
Interest receivable	**4**	**–**	**4**	3	–	3
Interest payable	**(47)**	**–**	**(47)**	(49)	–	(49)
Movement in the fair value of derivatives	**–**	**–**	**–**	(1)	–	(1)
Exchange movements	**(31)**	**–**	**(31)**	40	–	40
Operating profit before carry	**920**	**20**	**940**	721	26	747
Carried interest and performance fees receivable			**83**			80
Carried interest and performance fees payable			**(188)**			(142)
Acquisition related earn-out charges			**(5)**			(8)
Operating profit			**830**			677
Income taxes			**–**			(4)
Re-measurements of defined benefit plans			**(6)**			(14)
Total comprehensive income ("Total return")			**824**			659
Total return on opening shareholders' funds			**21.7%**			19.9%

1 Includes restructuring costs of nil (2015: nil) and £5 million (2015: £1 million) for Proprietary Capital and Fund Management respectively.

Strategic report

Financial review

Proprietary capital returns

Operating profit before carry on our Proprietary Capital was £920 million (2015: £721 million) and was underpinned by strong value growth in the portfolio and positive foreign exchange movements which partly reversed negative foreign exchange movements incurred in 2014 and 2015.

By business line, gross investment return on opening portfolio value was 32% for Private Equity (2015: 24%), 8% for Infrastructure (2015: 20%) and 6% for Debt Management (2015: loss of 7%). Private Equity accounted for 83% of the Proprietary Capital portfolio at 31 March 2016 (31 March 2015: 81%) and remains the primary driver of Proprietary Capital returns.

Realised profits

Exit momentum continued in the year to 31 March 2016 with realisation proceeds of £796 million (2015: £841 million) generating realised profits of £72 million (2015: £162 million). Realisations, excluding refinancings, were achieved at an uplift over opening value of 13%, (2015: 27%), due to a number of assets being valued on an imminent sales basis at the beginning of the year and the sale of quoted stakes.

The majority of the realisations were from the Private Equity portfolio, which contributed £743 million (2015: £831 million) of this, including £185 million of refinancing proceeds (2015: £155 million). Refinancing proceeds of £168 million were generated by Action, whose strong cash generation meant it had de-levered rapidly since its refinancing in January 2015. Private Equity proceeds also included the sale of Element for £179 million and £111 million from sales of our quoted stakes. Table 2, in the Private Equity section, details the Private Equity realisations in the year and sets out the accounting uplift reflected in this year's total return and the longer-term cash-to-cash results. The Private Equity realisations, including refinancings and partial disposals completed in the year, have generated a money multiple of 2.6x over their investment life.

Proceeds of £51 million were received from 3iN, via a special dividend, following the completion of the sale of its holding in Eversholt Rail, and these were treated as realised proceeds.

Unrealised value movements

The unrealised value movement of £669 million (2015: £684 million) was driven by the continued strong performance of a number of our key assets, which more than offset market-driven weakness in a small number of portfolio companies. Table 8 summarises the revaluation movement by category and each category is discussed further below.

Table 8: Unrealised profits/(losses) on revaluation of investments for the year to 31 March

	2016 £m	2015 £m
Private Equity		
Earnings based valuations		
Performance	**460**	417
Multiple movements	**95**	64
Other bases		
Uplift to imminent sale	**13**	22
Discounted cash flow	**124**	89
Other movements on unquoted investments	**5**	3
Quoted portfolio	**(7)**	46
Infrastructure		
Quoted portfolio	**31**	77
Discounted cash flow	**(9)**	(9)
Debt Management	**(43)**	(25)
Total	**669**	684

Private Equity unrealised value growth

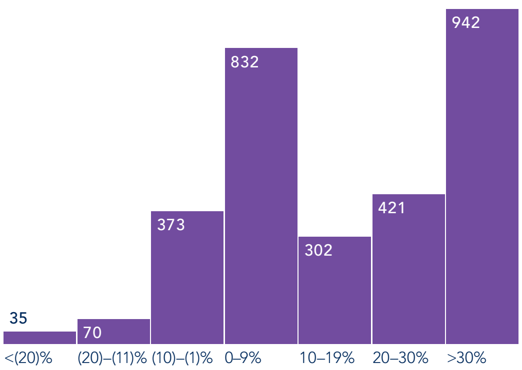
The Private Equity portfolio performed strongly with value growth of £690 million in the year (2015: £641 million). This was underpinned by good value weighted earnings growth of 17% (2015: 19%) and a weighted multiple increase of 10% (2015: 6%), following the re-rating of a small number of our assets. Net debt declined to 2.9x EBITDA (31 March 2015: 3.1x) notwithstanding the fact that Action took advantage of its strong cash generation capability to take on additional debt at favourable terms. The majority of the portfolio (84% by value, 2015: 93%) grew its earnings in the year and our larger and more recent investments continue to perform very well.

Performance

Improvements in the performance of the portfolio valued on an earnings basis resulted in an increase in value of £460 million (2015: £417 million). Value weighted earnings increased by 17% in the year (2015: 19%). Action, our largest asset with over 30% earnings growth in the 12 months to December 2015, is the biggest contributor to this measure. Excluding Action, the value weighted earnings growth was lower at 7% (2015: 16%) principally due to the sale of Element, one of our largest assets with high growth supported by its buy and build strategy and the impact of macro-economic challenges, such as the oil and commodity price pressure, seen in a small number of portfolio companies (JMJ, Dynatect, Agent Provocateur, AES and Etanco). In addition, acquisitions by our portfolio companies were fewer this year and therefore the contribution from acquisitions to earnings growth in 2016 was lower (2015: 2% of the 19% growth).

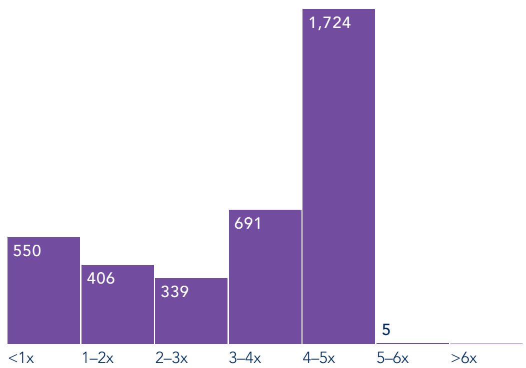
Chart 1: Portfolio earnings growth
weighted by March 2016 carrying values[1]

Last 12 months' (LTM) earnings growth 3i carrying value at 31 March 2016 (£m)



1 Includes all companies valued on an earnings basis where comparable earnings data is available. This represents 80% of the Private Equity portfolio by value.

Chart 2: Ratio of debt to EBITDA – Private Equity portfolio
weighted by March 2016 carrying values[1] (£m)



1 This represents 99% of the Private Equity portfolio by value.

The value of a small number of investments was impacted by company and geography specific issues. In total, value reductions of £64 million, in relation to seven assets, offset the otherwise strong performance (2015: £44 million, seven assets). The largest single negative movement related to JMJ, a leading safety management consultancy with a particular focus on major capital projects for the oil and gas industry. We recognised a £19 million value reduction on this investment in the year.

Forecast earnings, used when the outlook is lower than the last 12 months' data, were used for only two investments at 31 March 2016, representing 7% of the portfolio by number and 3% by value (31 March 2015: two, 6% by number and 3% by value). Chart 1 shows the earnings growth rates across the portfolio.

In the case of Action, EBITDA for valuation purposes is adjusted to reflect its run-rate performance. Action is growing strongly due, in part, to its successful store roll-out programme. We consider that this run-rate methodology reflects fairly the high growth characteristics of this business, and therefore its maintainable earnings. At £902 million (31 March 2015: £592 million), net of the £168 million refinancing in January 2016, Action is the largest Private Equity investment by value, representing 24% of the Private Equity portfolio (31 March 2015: 19%).

We took the opportunity to refinance the debt of Action and Geka, both increasing and extending the maturity of portfolio debt, with 82% of the overall portfolio debt now repayable in 2018 or later (31 March 2015: 81% in 2017 or later). Chart 2 shows the ratio of net debt to EBITDA weighted by portfolio value.

Multiple movements

The weighted average EBITDA multiple of the Private Equity portfolio assets valued on an earnings basis increased from 11.2x at 31 March 2015 to 12.3x at 31 March 2016 before liquidity discount, and from 10.5x to 11.5x after liquidity discount, resulting in a positive movement in the year of £95 million (2015: £64 million). Due to another year of strong performance against its comparable set, we reviewed Action's EBITDA multiple and increased it by 0.5x to 14.7x pre-liquidity discount and 14.0x post discount (31 March 2015: 14.2x, 13.5x). Based on the run-rate earnings and capital structure at 31 March 2016, a 1.0x movement in the EBITDA multiple applied would increase or decrease Action's value by £86 million. Excluding Action, the weighted average EBITDA multiple increased to 10.8x before liquidity discount (31 March 2015: 10.1x) and was 10.1x after liquidity discount (31 March 2015: 9.3x). We also increased the multiple used to value Basic-Fit to reflect its strong performance, significant capital investment programme and a positive market environment for discount gym operators more generally.

We continued to adjust multiples lower in 17 out of the 29 companies (31 March 2015: 22 out of 33) valued on an earnings basis. As a matter of policy, we select an appropriate multiple for each investment based on a comparable set of quoted companies and adjust these comparable multiple sets with discounts and occasionally premiums to take account of relevant size, sector, growth and cycle considerations as appropriate. Against a volatile market backdrop, we continued to apply a relatively high level of adjustments to reflect our caution about longer-term and sector multiple trends rather than taking an average of the quoted comparable sets.

The pre-discount multiples used to value the portfolio ranged between 6.5x and 14.7x and post-discount multiples ranged from 5.5x to 14.0x.

Strategic report

Financial review

Imminent sale

The exit processes for Amor and Mayborn were sufficiently progressed to value on an imminent sales basis at 31 March 2016. The uplift to imminent sale was £13 million (2015: £22 million). Both sales were announced post year end and are expected to complete by the end of June 2016.

Discounted cash flow

The largest investment valued using DCF in the Private Equity portfolio is Scandlines, the Danish/German ferry group, which increased in value by £122 million (2015: £94 million). Scandlines' largest ferry route, Rødby-Puttgarden, is expected to have direct competition from a new tunnel (the Fehmarn Belt project) at some point in the future. In light of recent public commentary and developments around expected potential delays to the opening of this new tunnel, we revised our assumption as to the tunnel opening date by three years since 31 March 2015 and two years since 30 September 2015. This change, combined with a reduction in the Weighted Average Cost of Capital ("WACC"), were the primary drivers of the increase in the value of our investment in Scandlines in the year.

Quoted portfolio

The Private Equity quoted portfolio, including IPOs completed in the year, generated an unrealised value reduction of £7 million (2015: £46 million gain) principally driven by our holding in Hong Kong listed Dphone. Table 9 details the movement in the year and closing quoted portfolio.

Infrastructure unrealised value movement

The Infrastructure portfolio consists primarily of our 34% holding in 3iN. 3iN continued to perform well during the year, as it has an attractive portfolio of core European assets. 3iN generated value growth of £33 million (2015: £77 million) for 3i Group in the year, driven by an 8% increase in the share price to 173 pence (2015: 160 pence, 19% increase) and a total shareholder return of 13%. This was offset by further modest falls in the value of the Indian Infrastructure portfolio of £12 million (2015: £9 million) as the investments continued to face a number of challenges.

Debt Management unrealised value movement

The Debt Management Proprietary Capital portfolio consists principally of CLO equity and at 31 March 2016, 3i had invested £151 million of proprietary capital in CLO equity (31 March 2015: £117 million). The remaining Debt Management portfolio is comprised of direct investments in CLO warehouses, the Global Income Fund and the Senior Loan fund.

The mark-to-market valuation of the CLO equity portfolio reduced by £43 million (2015: £25 million) and there were a number of other factors which contributed to this movement. We received £31 million (2015: £16 million) of cash distributions from CLO equity, which is included in portfolio income, resulting in an associated value reduction. Broker quotes, which are used to support CLO valuations, reflected general market concerns about liquidity and investor risk appetite. In the US in particular, negative investor sentiment around the oil and gas, commodities and utilities sectors impacted valuations significantly. The underlying cash flows of the CLOs remain sound, and our longer-term view of returns remains positive.

Table 9: Quoted portfolio movement for the year to 31 March 2016

Investment	IPO date	Opening value at 1 April 2015 £m[1]	Disposals at opening book value £m	Unrealised value growth £m	Other movements £m[2]	Closing value at 31 March 2016 £m	Total gross investment return during the year £m[3]
Quintiles	May 2013	144	(50)	(3)	1	92	–
Dphone	July 2014	35	–	(9)	(1)	25	(10)
Eltel	February 2015	47	(31)	1	3	20	3
Refresco Gerber	March 2015	47	(9)	5	1	44	9
UFO Moviez	May 2015	27	(15)	(1)	1	12	1
		300	**(105)**	**(7)**	**5**	**193**	**3**

1 For UFO Moviez, which IPOd during the year, this is the value pre-IPO.
2 Other movements relate to foreign exchange.
3 Includes realised profit/loss.

Portfolio income

Portfolio income increased by 24% to £140 million (2015: £113 million) of which £93 million was received in cash (2015: £80 million). Dividends of £71 million were received (2015: £45 million), including £31 million from CLO investments (2015: £16 million), £21 million from 3iN (2015: £20 million) and £18 million from Private Equity (2015: £9 million). Interest income totalled £63 million (2015: £62 million), with £59 million (2015: £56 million) generated from Private Equity investments and £4 million (2015: £6 million) generated from investments held in Debt Management warehouses.

Net portfolio fees of £6 million were recognised during the year (2015: £6 million) from new Private Equity investments and monitoring fees.

Net foreign exchange movements

The net foreign exchange gain of £157 million in the year (2015: £114 million loss) reflects the translation of non-sterling denominated portfolio assets and non-portfolio net assets, including cash and gross debt held at the balance sheet date. This movement reflects the strengthening of the euro (9.1%) against sterling over the year.

The net assets of the Group by currency and the sensitivity for further currency movements are shown in Table 10 below.

Table 10: Net assets of the Group by currency and sensitivity at 31 March 2016

	£m	%	1% sensitivity
Sterling	**1,364**	**31**	**n/a**
Euro	**2,169**	**49**	**22**
US dollar	**726**	**16**	**7**
Swedish krona	**106**	**2**	**1**
Other	**90**	**2**	**n/a**

Proprietary Capital costs

A proportion of the Group's operating expenses that are assessed as having been incurred in running a regulated and listed investment trust are allocated to Proprietary Capital. These costs include 100% of costs in relation to the CEO and Group Finance Director and elements of finance, IT, property and compliance. Operating expenses were broadly stable at £31 million (2015: £32 million) as the Group continued to manage costs closely.

Synthetic fees, the internal fee payable to the Fund Management business for managing the Group's Proprietary Capital, of £44 million (2015: £45 million) reflect the lower level of Proprietary Capital being managed as a result of net divestment activity, predominantly in Private Equity.

Net interest payable

Gross interest payable declined to £47 million (2015: £49 million) due to the reduced costs associated with the revolving credit facility which was refinanced in September 2014.

The current gross debt position is detailed further in the Balance sheet section of this Financial review and in Note 16 of the financial statements.

Cash interest received increased marginally to £4 million (2015: £3 million).

Fund Management returns

This year the Board agreed to remove Fund Management profitability as a KPI. While Fund Management profitability is still monitored when managing the individual business lines to ensure cost discipline, our decision not to raise a new Private Equity fund means that it is no longer expected to be a material driver of the Group's performance.

The Group's Fund Management income is driven by total AUM, which was £14.0 billion at 31 March 2016 (31 March 2015: £13.5 billion). The closing of four CLOs and the launch of the Global Income Fund, and further commitments to the European Middle Market Fund and US Senior Loan Fund in the Debt Management business offset a fall in AUM arising from net divestment activity in Private Equity and the special dividend from 3iN. The proportion of third-party assets under management increased marginally to 76% (31 March 2015: 75%).

The Fund Management business generated an operating profit before carry of £20 million and an operating profit margin of 16% (2015: £26 million, 21%). Fee income declined marginally to £123 million (2015: £125 million) due to reduced third-party Private Equity AUM. Operating expenses increased marginally to £103 million (2015: £99 million), principally due to the redundancy costs noted in the Private Equity business line section.

Strategic report

Financial review

Table 11: Fund Management profit for the year to 31 March

	2016 £m	2015 £m
Fees receivable from external funds		
Private Equity	**13**	16
Infrastructure	**28**	30
Debt Management	**38**	34
Synthetic fees		
Private Equity	**41**	42
Infrastructure	**3**	3
Debt Management	**–**	–
Total fee income	**123**	125
Fund Management operating expenses	**(103)**	(99)
Operating profit before carry	**20**	26

Table 12: Carried interest and performance fees by business line for the year to 31 March

	2016 £m	2015 £m
Carried interest and performance fees receivable		
Private Equity	**58**	28
Infrastructure	**20**	45
Debt Management	**5**	7
Total	**83**	80
Carried interest and performance fees payable		
Private Equity	**(171)**	(103)
Infrastructure	**(15)**	(35)
Debt Management	**(2)**	(4)
Total	**(188)**	(142)

Carried interest and performance fees payable

Our largest Private Equity fund, Eurofund V, which includes investments made in 2007–12, reached its performance hurdle on a valuation basis in FY2016. We have seen a strong recovery in the fund's multiple to 1.7x (31 March 2015: 1.4x) principally due to the performance of Action and Scandlines, as well as the realisations of Element and Amor. As a result, we are now accruing carried interest receivable from this fund for the first time and £63 million was recognised in the year (2015: nil). This is calculated assuming that the portfolio was realised at the 31 March 2016 valuation.

We pay carried interest to our investment teams on proprietary capital invested and share a proportion of carried interest receivable from third-party funds. In Private Equity, we typically accrue carried interest payable at between 10–15% of gross investment return. The improved performance over the last 12 months means that 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 2016 valuation. We accrued carried interest payable of £171 million (2015: £103 million) for Private Equity in the year, of which £48 million relates to the team's share of carry receivable from Eurofund V (2015: nil).

3iN pays a performance fee based on 3iN's NAV on an annual basis, subject to a hurdle rate of return and a high-water mark. The continued good performance of the European assets held by 3iN resulted in the recognition of £20 million of performance fees receivable in the year (2015: £45 million). Carry payable to the Infrastructure team of £15 million (2015: £35 million) has been accrued.

Carry is only paid once the hurdles are passed in cash terms and the cash proceeds are actually received following a realisation or refinancing event. During the year, £15 million was paid (2015: £7 million).

In total at 31 March 2016, balance sheet carried interest and performance fees payable increased to £404 million (31 March 2015: £227 million) and the receivable increased to £122 million (31 March 2015: £88 million).

Pension

The valuation of assets of the Group's defined benefit pension schemes was impacted by the volatility in financial markets during the year. The liability of the Group's defined benefit pension scheme declined in the year following an increase in the discount rate. On a net basis, these movements resulted in a re-measurement loss of £6 million (2015: £14 million loss) for the year. On an IAS19 basis the pension scheme remains in a significant surplus.

The 2013 triennial valuation of the UK defined benefit pension scheme was completed in March 2014. It resulted in a very small surplus and consequently no further contributions were made, or are planned, as a result of this valuation. The next triennial valuation will be based on the pension scheme's funding position at 30 June 2016.

We launched a programme to offer our members flexibility in how they take their pension benefits following the implementation of HM Treasury's "Freedom and Choice in Pensions" changes. This included providing financial advice and a range of options for deferred and pensioner members.

Tax

The Group's parent company is an approved investment trust company for UK tax purposes. Approved investment trust companies are used as investment fund vehicles. The tax exemption for capital profits from which they benefit ensures that investors do not suffer double taxation of their investment returns. The majority of our returns are capital returns for tax purposes (realised profits, fair value adjustments and impairment losses) and are substantially non-taxable. As a result, the Group's tax charge in the year was nil (2015: £4 million).

Table 13: Operating cash profit for the year to 31 March

	2016 £m	2015 £m
Third-party capital fees	**78**	78
Cash portfolio fees	**7**	10
Cash portfolio dividends and interest	**86**	70
Cash income	**171**	158
Total operating expenses[1]	**134**	131
Less: Restructuring costs[2]	**–**	(1)
Operating expenses excluding restructuring costs	**134**	130
Operating cash profit	**37**	28

1 Operating expenses are stated on an accrual basis.
2 Operating cash profit in FY16 has not been adjusted for restructuring costs.

Operating cash profit

Third-party fees received remained broadly flat during the year, as the launch of four Debt Management CLOs and the Global Income Fund largely offset the reduction in fees from our Private Equity funds. Increased investment into cash yielding Debt Management funds has generated good income and the Private Equity portfolio generated a higher level of dividend income. Consequently, the Group was able materially to improve its operating cash income to £171 million (2015: £158 million) despite the net divestment activity in Private Equity.

Total operating expenses increased by 2% to £134 million (2015: £131 million), while restructuring costs, which comprise redundancy, office closures and organisational changes, increased to £5 million (2015: £1 million). Excluding restructuring and redundancy costs, operating expenses were stable at £129 million (2015: £130 million) despite some strategic recruitment into our investment teams in the second half of the year. Operating expenses as a percentage of weighted average AUM remained stable at 1.0% (2015: 1.0%), as a result of the continuing cost focus. We expect costs to rise marginally as we continue to grow the business, increase activity and deal with increased regulation, but we expect costs to remain at c.1.0% of AUM.

In total, the operating cash profit position, including this year's restructuring costs, increased significantly to £37 million (2015: £28 million).

Cash flow

Investment and realisations

Proceeds from realisations were £796 million (2015: £841 million), of which £25 million was receivable at 31 March 2016. Cash proceeds of £771 million were offset partly by cash investment of £453 million (2015: £474 million) and resulted in net cash inflow of £318 million (2015: £367 million). A further £99 million of investment was non-cash due to capitalised interest (2015: £140 million) and total investment was £552 million (2015: £614 million).

Further detail on investment and realisations is included in the relevant business line sections.

Table 14: Investment activity – Proprietary Capital and Third-party Capital for the year to 31 March

	Proprietary Capital		Proprietary and Third-party Capital	
	2016 £m	2015 £m	2016 £m	2015 £m
Realisations	**771**	841	**1,327**	1,363
Cash investment	**(453)**	(474)	**(494)**	(562)
Net cash divestment	**318**	367	**833**	801
Non-cash investment	**(99)**	(140)	**(133)**	(191)
Net divestment	**219**	227	**700**	610

Strategic report
Financial review

Balance sheet

Table 15: Simplified balance sheet as at 31 March

	2016 £m	2015 £m
Investment portfolio value	**4,497**	3,877
Gross debt	**(837)**	(815)
Cash and deposits	**1,002**	864
Net cash	**165**	49
Other net liabilities	**(207)**	(120)
Net assets	**4,455**	3,806
Gearing	**nil**	nil

The proprietary capital portfolio increased to £4,497 million at 31 March 2016 (31 March 2015: £3,877 million) as cash investment of £453 million, unrealised value growth of £669 million and foreign exchange movements of £188 million outweighed the good level of realisations.

Gross debt includes a euro denominated bond of £262 million (31 March 2015: £240 million) which matures on 17 March 2017. We expect to repay that bond out of cash resources.

Net divestment activity and an operating cash profit led to cash and deposits on the balance sheet increasing to £1,002 million (31 March 2015: £864 million). After allowing for an increase in the sterling equivalent of the 2017 euro denominated bond, the Group was in a net cash position of £165 million at 31 March 2016 (31 March 2015: £49 million net cash). Gearing remained at nil at 31 March 2016 (31 March 2015: nil).

Liquidity

Liquidity remained strong at £1,352 million (31 March 2015: £1,214 million) and comprised cash and deposits of £1,002 million (31 March 2015: £864 million) and undrawn facilities of £350 million (31 March 2015: £350 million).

Foreign exchange hedging

Although derivatives are not used to hedge currency movements on a portfolio basis, we do hedge individual investment acquisitions or divestments where appropriate. Foreign exchange risk is considered an integral part of the investment process.

Diluted NAV

The diluted NAV per share at 31 March 2016 was 463 pence (31 March 2015: 396 pence). This was driven by the total return in the year of £824 million (2015: £659 million) and partially offset by dividend payments in the year of £190 million, or 20.0 pence per share (2015: £183 million, 19.3 pence per share).

Dividend

The Board has declared a total dividend of 22 pence (2015: 20.0 pence) for 2016. This comprises an 8.1 pence base dividend and a 13.9 pence additional dividend. Due to our current net divestment activity and robust balance sheet, we have proposed an additional dividend above the top end of our 15%–20% distribution range, that will result in the total dividend for 2016 being 27% of gross cash realised proceeds. Following payment of an interim dividend of 6.0 pence per share in January 2016, and subject to shareholder approval, we will pay the final dividend of 16.0 pence (2015: 14.0 pence) on 22 July 2016 to shareholders on the register at 17 June 2016.

Key accounting judgements and estimates

In preparing these accounts, the key accounting judgement estimate 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 valuations policies, process and application to individual investments. However, asset valuations for non-quoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2016, 85% of the investment assets were non-quoted (31 March 2015: 80%).

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 is accurate. IFRS 10 has 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 an alternative non-GAAP investment basis set of financial statements to ensure that the commentary in the Strategic report remains fair, balanced and understandable.

Investment basis

Consolidated statement of comprehensive income

	Total 2016 £m	Total 2015 £m
Realised profits over value on the disposal of investments	**72**	162
Unrealised profits on the revaluation of investments	**669**	684
Portfolio income		
Dividends	**71**	45
Income from loans and receivables	**63**	62
Fees receivable	**6**	6
Foreign exchange gain/(loss) on investments	**188**	(154)
Gross investment return	**1,069**	805
Fees receivable from external funds	**79**	80
Operating expenses	**(134)**	(131)
Interest receivable	**4**	3
Interest payable	**(47)**	(49)
Movement in the fair value of derivatives	**–**	(1)
Foreign exchange (loss)/gain	**(31)**	40
Operating profit before carry	**940**	747
Carried interest		
Carried interest and performance fees receivable	**83**	80
Carried interest and performance fees payable	**(188)**	(142)
Acquisition related earn-out charges	**(5)**	(8)
Operating profit	**830**	677
Income taxes	**–**	(4)
Profit for the year	**830**	673
Other comprehensive income		
Re-measurements of defined benefit plans	**(6)**	(14)
Total comprehensive income for the year ("Total return")	**824**	659

Strategic report

Investment basis

Consolidated statement of financial position

	Total 2016 £m	Total 2015 £m
Assets		
Non-current assets		
Investments		
Quoted investments	**658**	763
Unquoted investments	**3,839**	3,114
Investment portfolio	**4,497**	3,877
Carried interest and performance fees receivable	**94**	43
Other non-current assets	**37**	21
Intangible assets	**12**	19
Retirement benefit surplus	**132**	136
Property, plant and equipment	**5**	4
Deferred income taxes	**3**	3
Total non-current assets	**4,780**	4,103
Current assets		
Carried interest and performance fees receivable	**28**	45
Other current assets	**53**	64
Deposits	**40**	–
Cash and cash equivalents	**962**	864
Total current assets	**1,083**	973
Total assets	**5,863**	5,076
Liabilities		
Non-current liabilities		
Trade and other payables	**(27)**	(25)
Carried interest and performance fees payable	**(290)**	(214)
Acquisition related earn-out charges payable	**–**	(10)
Loans and borrowings	**(575)**	(815)
Retirement benefit deficit	**(20)**	(19)
Deferred income taxes	**(2)**	(3)
Provisions	**(1)**	(5)
Total non-current liabilities	**(915)**	(1,091)
Current liabilities		
Trade and other payables	**(107)**	(144)
Carried interest and performance fees payable	**(114)**	(13)
Acquisition related earn-out charges payable	**(1)**	(17)
Loans and borrowings	**(262)**	–
Current income taxes	**(2)**	(2)
Provisions	**(7)**	(3)
Total current liabilities	**(493)**	(179)
Total liabilities	**(1,408)**	(1,270)
Net assets	**4,455**	3,806
Equity		
Issued capital	**719**	719
Share premium	**784**	784
Other reserves	**3,006**	2,382
Own shares	**(54)**	(79)
Total equity	**4,455**	3,806

Investment basis

Consolidated cash flow statement

	Total 2016 £m	Total 2015 £m
Cash flow from operating activities		
Purchase of investments	**(449)**	(474)
Proceeds from investments	**771**	841
Cash divestment from traded portfolio	**–**	21
Net cash flow from derivatives	**(14)**	9
Portfolio interest received	**15**	26
Portfolio dividends received	**71**	44
Portfolio fees received	**7**	10
Fees received from external funds	**78**	78
Carried interest and performance fees received	**52**	6
Carried interest and performance fees paid	**(15)**	(13)
Acquisition related earn-out charges paid	**(30)**	(10)
Operating expenses	**(134)**	(117)
Income taxes paid	**–**	(5)
Net cash flow from operating activities	**352**	416
Cash flow from financing activities		
Issue of shares	**–**	3
Repurchase of B shares	**–**	(6)
Dividend paid	**(190)**	(183)
Interest received	**4**	3
Interest paid	**(51)**	(54)
Net cash flow from financing activities	**(237)**	(237)
Cash flow from investing activities		
Purchase of property, plant and equipment	**(1)**	–
Net cash flow from deposits	**(40)**	–
Net cash flow from investing activities	**(41)**	–
Change in cash and cash equivalents	**74**	179
Cash and cash equivalents at the start of year	**864**	697
Effect of exchange rate fluctuations	**24**	(12)
Cash and cash equivalents at the end of year	**962**	864

Strategic report

Reconciliation of Investment basis to IFRS

Background to Investment basis financial statements

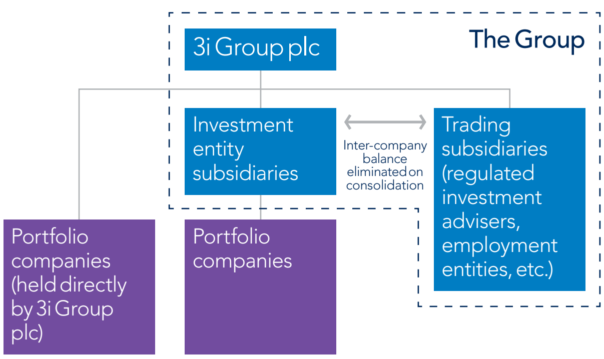
The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment,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

As a result we introduced separate non-GAAP "Investment basis" Statements of comprehensive income, financial position and cash flow in our 2014 Annual report and accounts to aid understanding of our results. The Strategic report is also 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. The two diagrams below illustrate these changes, together with an illustrative example to show how information can be aggregated.

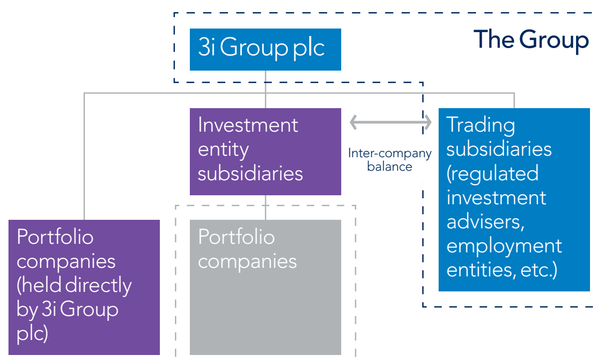
Reconciliation between Investment basis and IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the Statement of comprehensive income, Statement of financial position and Cash flow statement is shown on pages 49 to 52.

Investment basis of consolidation



IFRS 10 basis of consolidation



Reconciliation of consolidated statement of comprehensive income

	Notes	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m
Realised profits over value on the disposal of investments	1, 2	72	(61)	11	162	(108)	54
Unrealised profits on the revaluation of investments	1, 2	669	(577)	92	684	(448)	236
Fair value movements on investment entity subsidiaries	1	–	591	591	–	530	530
Portfolio income							
Dividends	1, 2	71	(13)	58	45	(9)	36
Income from loans and receivables	1, 2	63	(37)	26	62	(24)	38
Fees receivable	1, 2	6	2	8	6	–	6
Foreign exchange on investments	1, 3	188	(147)	41	(154)	105	(49)
Gross investment return		**1,069**	**(242)**	**827**	805	46	851
Fees receivable from external funds	1, 4	79	–	79	80	–	80
Operating expenses	1, 4	(134)	2	(132)	(131)	9	(122)
Interest receivable		4	–	4	3	–	3
Interest payable		(47)	–	(47)	(49)	–	(49)
Movement in the fair value of derivatives		–	–	–	(1)	–	(1)
Exchange movements	1, 3	(31)	96	65	40	(101)	(61)
(Expense)/income from investment entity subsidiaries	1	–	(10)	(10)	–	1	1
Operating profit before carry		**940**	**(154)**	**786**	747	(45)	702
Carried interest							
Carried interest and performance fees receivable	1, 4	83	(5)	78	80	–	80
Carried interest and performance fees payable	1, 4	(188)	148	(40)	(142)	70	(72)
Acquisition related earn-out charges		(5)	–	(5)	(8)	–	(8)
Operating profit		**830**	**(11)**	**819**	677	25	702
Income taxes	1, 4	–	(2)	(2)	(4)	2	(2)
Profit for the year		**830**	**(13)**	**817**	673	27	700
Other comprehensive income							
Exchange differences on translation of foreign operations	1, 3	–	13	13	–	(27)	(27)
Re-measurements of defined benefit plans		(6)	–	(6)	(14)	–	(14)
Total comprehensive income for the year ("Total return")		**824**	**–**	**824**	659	–	659

Notes:

1 Applying IFRS 10 to the Statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item "Fair value movements on investment entity subsidiaries". In the "Investment basis" accounts we have disaggregated these line items to analyse our total return as if these Investment entity subsidiaries were fully consolidated, consistent with prior years. The adjustments simply reclassify the Statement of comprehensive income of the Group, and the total return is equal under the Investment basis and the IFRS basis.

2 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.

3 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".

4 Other items also aggregated into the "Fair value movements on investment entity subsidiaries" line include fees receivable from external funds, audit fees, custodian fees, bank charges, other general and administration expenses, carried interest and tax.

The IFRS basis is audited and the Investment basis is unaudited. The external Auditor states in its Audit report on pages 140 to 145 that the information given in the FY2016 Strategic report and the Corporate Governance report is consistent with the financial statements.

Strategic report

Reconciliation of Investment basis to IFRS

Reconciliation of consolidated statement of financial position

	Notes	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m
Assets							
Non-current assets							
Investments							
Quoted investments	1	**658**	**(361)**	**297**	763	(364)	399
Unquoted investments	1	**3,839**	**(2,596)**	**1,243**	3,114	(1,842)	1,272
Investments in investment entity subsidiaries	1, 3	**–**	**2,680**	**2,680**	–	2,079	2,079
Investment portfolio		**4,497**	**(277)**	**4,220**	3,877	(127)	3,750
Carried interest and performance fees receivable	1	**94**	**(5)**	**89**	43	–	43
Other non-current assets		**37**	**–**	**37**	21	–	21
Intangible assets		**12**	**–**	**12**	19	–	19
Retirement benefit surplus		**132**	**–**	**132**	136	–	136
Property, plant and equipment		**5**	**–**	**5**	4	–	4
Deferred income taxes		**3**	**–**	**3**	3	–	3
Total non-current assets		**4,780**	**(282)**	**4,498**	4,103	(127)	3,976
Current assets							
Carried interest and performance fees receivable		**28**	**–**	**28**	45	–	45
Other current assets	1	**53**	**(22)**	**31**	64	(31)	33
Deposits		**40**	**–**	**40**	–	–	–
Cash and cash equivalents	1, 2	**962**	**(5)**	**957**	864	(3)	861
Total current assets		**1,083**	**(27)**	**1,056**	973	(34)	939
Total assets		**5,863**	**(309)**	**5,554**	5,076	(161)	4,915
Liabilities							
Non-current liabilities							
Trade and other payables		**(27)**	**–**	**(27)**	(25)	–	(25)
Carried interest and performance fees payable	1	**(290)**	**205**	**(85)**	(214)	142	(72)
Acquisition related earn-out charges payable		**–**	**–**	**–**	(10)	–	(10)
Loans and borrowings		**(575)**	**–**	**(575)**	(815)	–	(815)
Retirement benefit deficit		**(20)**	**–**	**(20)**	(19)	–	(19)
Deferred income taxes	1	**(2)**	**2**	**–**	(3)	2	(1)
Provisions		**(1)**	**–**	**(1)**	(5)	–	(5)
Total non-current liabilities		**(915)**	**207**	**(708)**	(1,091)	144	(947)
Current liabilities							
Trade and other payables	1	**(107)**	**8**	**(99)**	(144)	17	(127)
Carried interest and performance fees payable	1	**(114)**	**94**	**(20)**	(13)	–	(13)
Acquisition related earn-out charges payable		**(1)**	**–**	**(1)**	(17)	–	(17)
Loans and borrowings		**(262)**	**–**	**(262)**	–	–	–
Current income taxes		**(2)**	**–**	**(2)**	(2)	–	(2)
Provisions		**(7)**	**–**	**(7)**	(3)	–	(3)
Total current liabilities		**(493)**	**102**	**(391)**	(179)	17	(162)
Total liabilities		**(1,408)**	**309**	**(1,099)**	(1,270)	161	(1,109)
Net assets		**4,455**	**–**	**4,455**	3,806	–	3,806
Equity							
Issued capital		**719**	**–**	**719**	719	–	719
Share premium		**784**	**–**	**784**	784	–	784
Other reserves	4	**3,006**	**–**	**3,006**	2,382	–	2,382
Own shares		**(54)**	**–**	**(54)**	(79)	–	(79)
Total equity		**4,455**	**–**	**4,455**	3,806	–	3,806

The Notes relating to the table above are on the opposite page.

Notes:

1 Applying IFRS 10 to the 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 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 Cash balances held in Investment entity subsidiaries are also aggregated into the "Investment in investment entities" line. At 31 March 2016 £5 million (2015: £3 million) of cash was held in subsidiaries that are now classified as Investment entity subsidiaries and is therefore included in the "Investment in investment entities" line.

3 Intercompany balances between Investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an Investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the Investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the Statement of financial position for the Group. Prior to the adoption of IFRS 10, these balances would have been eliminated on consolidation.

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

The IFRS basis is audited and the Investment basis is unaudited. The external Auditor states in its Audit report on pages 140 to 145 that the information given in the FY2016 Strategic report and the Corporate Governance report is consistent with the financial statements.

Strategic report

Reconciliation of Investment basis to IFRS

Reconciliation of consolidated cash flow statement

	Notes	Investment basis 2016 £m	IFRS adjustments 2016 £m	IFRS basis 2016 £m	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m
Cash flow from operating activities							
Purchase of investments	1	**(449)**	**362**	**(87)**	(474)	358	(116)
Proceeds from investments	1	**771**	**(535)**	**236**	841	(571)	270
Cash divestment from traded portfolio	1	**–**	**–**	**–**	21	(21)	–
Cash inflow from investment entity subsidiaries	1	**–**	**206**	**206**	–	272	272
Net cash flow from derivatives		**(14)**	**–**	**(14)**	9	–	9
Portfolio interest received	1	**15**	**(10)**	**5**	26	(12)	14
Portfolio dividends received	1	**71**	**(13)**	**58**	44	(9)	35
Portfolio fees received		**7**	**–**	**7**	10	–	10
Fees received from external funds	1	**78**	**–**	**78**	78	(1)	77
Carried interest and performance fees received		**52**	**–**	**52**	6	–	6
Carried interest and performance fees paid	1	**(15)**	**2**	**(13)**	(13)	(1)	(14)
Acquisition related earn-out charges paid		**(30)**	**–**	**(30)**	(10)	–	(10)
Operating expenses	1	**(134)**	**–**	**(134)**	(117)	1	(116)
Income taxes paid		**–**	**–**	**–**	(5)	–	(5)
Net cash flow from operating activities		**352**	**12**	**364**	416	16	432
Cash flow from financing activities							
Dividend paid		**(190)**	**–**	**(190)**	(183)	–	(183)
Issue of shares		**–**	**–**	**–**	3	–	3
Repurchase of B shares		**–**	**–**	**–**	(6)	–	(6)
Interest received		**4**	**–**	**4**	3	–	3
Interest paid		**(51)**	**–**	**(51)**	(54)	–	(54)
Net cash flow from financing activities		**(237)**	**–**	**(237)**	(237)	–	(237)
Cash flow from investing activities							
Purchase of property, plant and equipment	1	**(1)**	**–**	**(1)**	–	–	–
Net cash flow from deposits		**(40)**	**–**	**(40)**	–	–	–
Net cash flow from investing activities		**(41)**	**–**	**(41)**	–	–	–
Change in cash and cash equivalents	2	**74**	**12**	**86**	179	16	195
Cash and cash equivalents at the start of year	2	**864**	**(3)**	**861**	697	(23)	674
Effect of exchange rate fluctuations	1	**24**	**(14)**	**10**	(12)	4	(8)
Cash and cash equivalents at the end of year	2	**962**	**(5)**	**957**	864	(3)	861

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.

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

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

The IFRS basis is audited and the Investment basis is unaudited. The external Auditor states in its Audit report on pages 140 to 145 that the information given in the FY2016 Strategic report and the Corporate Governance report is consistent with the financial statements.

Strategic report

Corporate responsibility

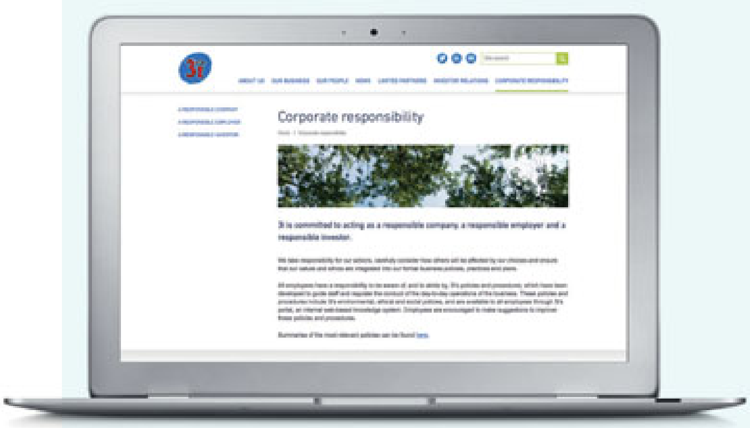
3i is committed to acting as a responsible company, a responsible employer and a responsible investor. We take responsibility for our actions, carefully consider how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices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

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.

3i.com/corporate-responsibility



A responsible company

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.

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 2016, our measured Scope 1 and 2 emissions (location-based) totalled 1,106.6 tCO_2e. This comprised:

Scope		**FY2016**	FY2015 (restated)
1		**252.4 tCO_2e**	247.3 tCO_2e
2	Location-based	**854.2 tCO_2e**	899.0 tCO_2e
2	Market-based[1]	**544.4 tCO_2**	N/A

1 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_2 rather than tCO_2e due to the availability of emission factors.

This is equivalent to 4.0 tCO_2e per full-time equivalent employee, based on an average of 276 employees during the year (2015: 4.2 tCO_2e; 271 employees).

We have restated the emissions figures for the year to 31 March 2015 to reflect improved data collection. Overall our Scope 1 and 2 emissions decreased by 3% in the year.

Our emissions have been verified by an external third party according to the ISO 14064-3 standard.

Strategic report

Corporate responsibility

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 2016 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, we are supplied by EDF Energy, which has a cleaner fuel mix than the UK average. The dual reporting of our emissions demonstrates the impact that procuring energy from suppliers with lower emissions has on our greenhouse gas emissions, as reflected in our lower Scope 2 market-based emissions figure.

As part of compliance with the UK Energy Savings Opportunities Scheme ("ESOS"), we have identified further savings which could lead to a reduction in electricity consumption at our London office.

Our efforts to minimise our carbon footprint have been recognised externally and 3i was the recipient of a Bronze Award from the London Mayor's 2015 Business Energy Challenge, which recognises businesses' efforts to cut energy use from their London locations.

We report our GHG emissions and climate change data to the CDP. In addition to this, we are preparing to report in accordance with the Global Reporting Initiative ("GRI") Sustainability Reporting Framework, G4, at the Core level for the year ending 31 March 2017.

Community

We focus our charitable activities on the disadvantaged, on young people and on education. Charities are supported on the basis of their effectiveness and impact. We also support staff giving and sponsorship through matching donations. Our charitable giving for the year to 31 March 2016 totalled £324,009. For more information, see our Corporate responsibility report.

A responsible employer

Human rights

Whilst 3i does not have a formal human rights policy, our policies are consistent with internationally-proclaimed human rights principles. In particular, 3i is an equal opportunities employer 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. Summaries of relevant 3i policies, including our policies on people, recruitment and selection, equal opportunities and diversity, health and safety and responsible investment are available at **www.3i.com**. 3i will publish on its website a slavery and human trafficking statement, as required by section 54 of the Modern Slavery Act 2015, on or before 30 September 2016.

At 31 March 2016, 3i had a total of 281 employees (calculated under the investment basis). The breakdown by gender is as follows:

(number)	Total	Male	Female
All 3i employees	281	174	107
3i Group Directors[1]	8	5	3
Senior managers[2]	46	36	10

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

2 "Senior managers" excludes Simon Borrows and Julia Wilson (who are included as Directors of 3i Group plc) and includes 28 people who were directors of undertakings included in the consolidated Group accounts, of whom 24 are male and 4 are female.

Employee engagement

Honest communication with our staff is important to us. To this end, 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.

Graduate training scheme

We launched our new graduate recruitment scheme in 2015, which is designed to develop our next generation of world-class investment professionals and business leaders. Our first five graduate analysts joined us in 2015, and a further five will join us in September 2016. The programme consists of comprehensive and high-quality training, followed by rotations through each of our Private Equity, Infrastructure and Debt Management businesses as well as our Strategy and Finance teams.

A responsible investor

As a company, we have a relatively small footprint on many corporate responsibility issues. However, with assets under management of £14 billion, we recognise that our decisions as an investor potentially matter to a broad range of people.

We 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 licence to operate; and
- it is vital that we seek to identify all material ESG risks and opportunities through our due diligence and effectively manage them during the period of 3i's investment.

UNPRI

Since 2011, we have been signatories to the UN Principles for Responsible Investment. We also have a clear and comprehensive Responsible Investment policy which is embedded into our investment and portfolio monitoring processes. In our experience, companies with high ESG standards are typically better run, create fewer business risks and ultimately deliver better value.

Our Responsible Investment policy

Our detailed Responsible Investment 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 potential new portfolio companies to meet, or to commit to meeting over a reasonable time period.

We will use our 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.

Our Responsible Investment 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. A summary of our Responsible Investment policy is available on our website.

For more information on our approach to Responsible Investing, including a summary of our Responsible Investment policy, please visit **www.3i.com/corporate-responsibility/a-responsible-investor/responsible-investment**

Strategic report

Corporate responsibility

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 long-standing member of the Dow Jones Sustainability Indices and of the FTSE4Good Index Series since 2001 and 2011 respectively.

The Dow Jones Sustainability Indices are the longest-running global sustainability benchmarks and are used by asset managers globally to assist them in their investment decisions.

The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong corporate responsibility practices.

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM

FTSE4Good

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.

CDP
DRIVING SUSTAINABLE ECONOMIES

By order of the Board

Simon Borrows
Chief Executive

18 May 2016

Corporate Governance
p57

Corporate responsibility report
www.3i.com/corporate-responsibility

Corporate responsibility policies
www.3i.com/corporate-responsibility/corporate-responsibility-policies

Responsible investment
www.3i.com/corporate-responsibility/a-responsible-investor/responsible-investment

Corporate Governance

Chairman's introduction

"The governance and oversight of 3i's business model and strategic objectives is key to the continuing value creation for our shareholders."

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

Good corporate governance is fundamental to 3i and its activities. Governance and oversight of the Group's business model and strategy are critical to the delivery of value to the Group's stakeholders. This is more important than ever given the volatile and uncertain economic and political environment and the changing regulatory landscape that our sector faces.

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

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

S. R. Thompson

Simon Thompson
Chairman

Statement of Compliance
The Board has considered the Company's compliance with the main principles and provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council in September 2014, publicly available at www.frc.org.uk. The Board considers that the Company has complied with the relevant provisions of the Code throughout the year under review.

Corporate Governance

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. Chairman of Tullow Oil plc and non-executive director of Rio Tinto plc.

Previous experience
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 B.V., the Dutch holding company for the Group's and 3i Eurofund V'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
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.

Previous experience
Chairman of AXA Investment Managers (to 2014). 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.

Caroline Banszky
Non-executive Director

Non-executive Director since July 2014. The Managing Director of the Law Debenture Corporation p.l.c. since 2002.

Previous experience
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 with what is now KPMG.

Peter Grosch
Non-executive Director

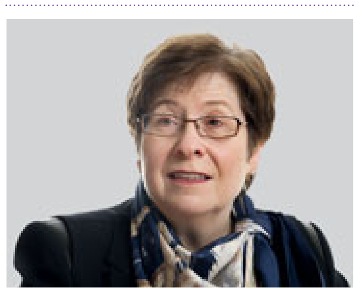
Non-executive Director since November 2015. Chairman of Kelvion GmbH, deputy Chairman of SLM Solutions AG and director of Faster SPA as well as being chairman of Euro-Diesel, a 3i investee company.

Previous experience
CEO and President of Diehl Aerospace and Defence Systems, Executive Vice President DaimlerChrysler Off highway and Managing Director and Board Member of MTU Friedrichhafen (now Rolls Royce Power Systems AG).

David Hutchison
Non-executive Director

Non-executive Director since November 2013. Chief Executive of Social Finance Limited and a non-executive director of the Start-Up Loans Company.

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

Previous experience
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.

Executive Committee

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 B.V., the Dutch holding company for the Group's and 3i Eurofund V'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.

Jeremy Ghose
Managing Partner and CEO of 3i Debt Management

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

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

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.

Ben Loomes
Managing Partner, Infrastructure and Group Strategy Director

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

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

Phil White
Managing Partner, Infrastructure

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

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

Corporate Governance

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. This committee structure is outlined on page 61. The Board reviews membership of these Committees regularly. The Board 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**

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional Committees which are also outlined on page 61.

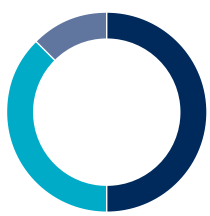
Board composition

Composition

Executive	25%
Non-Executive	75%

Tenure

3–9 years	50%
1–3 years	37.5%
Under 1 year	12.5%



Gender diversity

Male	62.5%
Female	37.5%

Division of responsibilities

Role of the Chairman

- Leads the Board in setting its agenda, agreeing strategy, monitoring financial and operational performance, and establishing the Group's risk appetite.
- Organises the business of the Board, ensuring its effectiveness, and maintaining an effective system of internal controls.
- Ensures that non-executive Directors receive relevant and accurate information to facilitate an open and effective discussion. This includes ensuring that the non-executive Directors receive regular reports on shareholders' views on the Group.
- Responsible for the composition of the Board and facilitates the effective contribution of non-executive Directors and constructive relationships between Executive and non-executive Directors.

Role of the Chief Executive

- Direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.
- Leads the Executive Committee to develop and implement the Group's strategy and manage risk and the internal control framework.
- Chairs the Investment Committee to review the acquisition, management and disposal of investments.
- Reports to the Board on financial and operational performance, risk management and progress in delivering the strategic objectives.
- Regularly engages with shareholders and other key stakeholders on the Group's activities and progress.

Role of non-executive Directors

- Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance.
- Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible.
- Determine appropriate levels of remuneration for Executive Directors and Executive Committee and have a prime role in appointing Directors and in succession planning.
- Constructively challenge and help develop proposals on strategy; this occurs at meetings of the Board, and in particular at the annual review meeting to discuss ongoing strategy, the most recent of which took place in December 2015.

Governance framework

The Board

Chairman: Simon Thompson

Chief Executive: Simon Borrows

Comprises: Chairman, 2 Executive Directors and 5 non-executive Directors

Role of the Board
→ p60
Biographies
→ p58

Principal Board Committees

Audit and Compliance Committee

Financial reporting, risk and internal controls

Caroline Banszky (Chairman)
Jonathan Asquith
Martine Verluyten

Audit and Compliance Committee report
→ p75

Remuneration Committee

Director and senior management remuneration and Group remuneration structure

Jonathan Asquith (Chairman)
Caroline Banszky
David Hutchison

Remuneration Committee report
→ p82

Nominations Committee

Board appointments, and size, balance and composition of the Board

Simon Thompson (Chairman)
Jonathan Asquith
Caroline Banszky
Peter Grosch
David Hutchison
Martine Verluyten

Nominations Committee report
→ p74

Valuations Committee

Valuation policy and investment valuations

David Hutchison (Chairman)
Simon Thompson
Simon Borrows
Peter Grosch
Martine Verluyten
Julia Wilson

Valuations Committee report
→ p79

In addition to its Principal Committees, the Board also has a number of other standing Committees, including the Treasury Transactions Committee, established to consider specific items of business on an ad hoc basis as required.

Chief Executive Committees

Executive Committee

Principal oversight body for management of the business

Simon Borrows (Chairman)
Menno Antal
Kevin Dunn
Jeremy Ghose
Alan Giddins
Ben Loomes
Phil White
Julia Wilson

Executive Committee
→ p59

Investment Committee

Acquisition, management and disposal of investments

Simon Borrows (Chairman)
Menno Antal
Alan Giddins
Ian Lobley
Ben Loomes
Phil White
Julia Wilson

Investment Committee
→ p28

Group Risk Committee

Oversees the Group's risk management framework

Simon Borrows (Chairman)
Menno Antal
Kevin Dunn
Jeremy Ghose
Alan Giddins
Ben Loomes
Phil White
Julia Wilson
Head of Group Compliance
Head of Internal Audit

Group Risk Committee
→ p28

Conflicts Committee

Independent review of conflict issues

Kevin Dunn (Chairman)
Ben Loomes
Julia Wilson

Conflicts Committee
→ p28

Corporate Governance

The role of the Board

How the Board operates

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

Attendance at Board and Committee meetings during the year is shown on page 68. 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 key responsibilities and areas of focus for the Board are:

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

The Board has a formal schedule of matters reserved to it and its duly authorised Committees for decision. This is described on page 67. 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.

Effectiveness

During the year, the Board conducted its annual evaluation of its own performance and that of its Committees and individual Directors. On this occasion, the process was externally facilitated by Lintstock Limited. Lintstock Limited has no other connections with the Company. The evaluation consisted of a questionnaire, completed by all Board members plus the other six members of the Executive Committee, one-to-one interviews, and a subsequent report and action plan that was discussed and agreed at the Board. Overall, the evaluation concluded that the Board is performing well, but some areas for further improvement were identified and agreed.

The evaluation included the following topics: consideration of Board composition, expertise and dynamics; time management and Board support; the performance of the Board's Committees; the Board's strategic and operational oversight; succession planning and human resources management; and priorities for change. During the review Directors identified areas for further broadening of the Board's experience and expertise through recruitment as opportunities arise. Areas requiring increased focus, debate and, in some cases, reporting were identified and additional opportunities for Directors to interact with senior personnel beyond the Executive Committee were 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.

Statutory and corporate governance information

Investment policy

The current investment policy is set out below.

Investment policy

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

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 2015 the Board has made one non-material change to the first paragraph of the investment policy by changing "across" to "in" in the phrase "across Europe, Asia and the Americas". This change was made so as to better reflect the Group's current areas of investment focus.

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.

Regulation and management arrangements

3i Investments plc, 3i Debt Management Investments Limited, 3i BIFM Investments Limited, 3i Europe plc and 3i Nordic plc (all of which are subsidiaries of the Company) are authorised and regulated by the Financial Conduct Authority ("FCA") under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities, including two subsidiaries registered as investment advisers with the US Securities and Exchange Commission.

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. These services (and related fees) are set out in contracts containing detailed provisions.

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

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, namely, 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, the 3i European Middle Market Loan Fund and the 3i Global Income Fund. 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 for all AIFs with the exception of the 3i Global Income Fund which has appointed Citi Depositary Services Ireland Limited.

Corporate Governance

Statutory and corporate governance information

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 97. 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**. 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 £83 million, of which £41 million was fixed remuneration and £42 million was variable remuneration. The aggregate total remuneration paid to AIFM Identified Staff for the year was £17 million, of which £14 million was paid to Senior Management and £3 million was paid to other AIFM Identified Staff.

Results and dividends

Total comprehensive income for the year was £824 million (2015: £659 million). An interim dividend of 6.0 pence (comprising a base dividend of 2.7 pence and an additional dividend of 3.3 pence) per ordinary share in respect of the year to 31 March 2016 was paid on 7 January 2016. The Directors recommend a final dividend of 16 pence (comprising a base dividend of 5.4 pence and an additional dividend of 10.6 pence) per ordinary share be paid in respect of the year to 31 March 2016 to shareholders on the Register at the close of business on 17 June 2016.

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

Share capital and debentures

The issued ordinary share capital of the Company as at 1 April 2015 was 972,453,819 ordinary shares and at 31 March 2016 was 972,661,444 ordinary shares of $73^{19/22}$ pence each. It increased over the year by 207,625 ordinary shares on the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the issue of shares under The 3i Group Discretionary Share Plan.

At the Annual General Meeting ("AGM") on 25 June 2015, 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 11 May 2015) until the Company's AGM in 2016 or 24 September 2016, if earlier. This authority was not exercised in the year.

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.

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.

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 and Debt Management business lines may participate in asset-linked and/or fee-linked incentive arrangements. Employees participate in local state or company pension schemes as appropriate to local market conditions.

Political donations

In line with Group policy, during the year to 31 March 2016 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 2016, 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 £350 million multi-currency Revolving Credit Facility Agreement dated 5 September 2014, between the Company, Barclays Bank PLC and 11 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.

Statement of Directors' responsibilities

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

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

(a) select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

(b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

(c) provide additional disclosures when compliance with the specific requirements in IFRSs 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;

(d) 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

(e) make judgements and estimates that are reasonable.

Corporate Governance

Statutory and corporate governance information

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

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

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

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the 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 in the Board of Directors and Executive Committee section.

Going concern

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2016.

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

The Directors believe that the Group is well placed to manage its business risks successfully. The Directors have considered the uncertainties inherent in current and expected future market conditions, their possible impact upon the financial performance of the Group and a report from the Group Finance Director on the outlook for liquidity. After consideration, the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future, which is at least 12 months from the date of the accounts, and therefore continue to adopt the going concern basis in preparing the Annual report and accounts.

Audit information

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

(a) so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and

(b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's 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.

Restatement

The Group carried out a review of the accounting for subsidiaries in the parent company's balance sheet which resulted in the restatement shown in Note 31 of the financial statements.

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 41
Share allotments	Note 19

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.

Corporate governance statement

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

Corporate governance

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

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council in September 2014 which is available on the FRC website.

The Board's responsibilities and processes

The Board's key responsibilities are described on page 60. It is responsible 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 2015, 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 2016 AGM are set out in the 2016 Notice of AGM.

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

Matters reserved for the Board

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

- Approval of the Group's overall strategy, strategic plan and annual operating budget;
- Approval of the Company's half-yearly and annual financial statements and changes in the Group's accounting policies or practices;
- Changes relating to the capital structure of the Company or its regulated status;
- Major capital projects;
- Major changes in the nature of business operations;
- Investments and divestments in the ordinary course of business above certain limits set by the Board from time to time;
- Policy on borrowing, gearing, hedging and treasury matters;
- Adequacy of risk management and internal control systems;
- Appointments to the Board and the Executive Committee;
- Principal terms and conditions of employment of members of the Executive Committee; and
- Changes in employee share schemes and other long-term incentive schemes.

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

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

Meetings of the Board

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

- The Group's strategic plan, related KPIs and annual budget;
- Regular reports from the Chief Executive;
- 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 trading updates;
- Dividend policy and dividends;
- Reports on regulatory matters including significant regulation affecting the Group;
- Review of Balance Sheet Policy;
- Organisational capability and succession plans; and
- The new requirement for a viability statement in the Report and accounts.

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.

Corporate Governance

Corporate governance statement

Performance evaluation

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. Further details are given on page 62.

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 2016 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.

	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Valuations Committee
Total meetings held	7	6	3	6	4
Number attended:					
S R Thompson[1]	7(7)		2(2)		3(3)
Sir Adrian Montague[2]	2(2)				1(1)
S A Borrows	7(7)				4(4)
J S Wilson	7(7)				4(4)
J P Asquith	7(7)	6(6)	3(3)	6(6)	
C J Banszky	7(7)	6(6)	3(3)	1(1)	
A R Cox[3]	5(5)	4(4)	2(3)	5(5)	
P Grosch[4]	3(3)		1(1)		1(1)
D A M Hutchison	7(7)		3(3)	6(6)	4(4)
M G Verluyten	6(7)	2(2)	1(3)		4(4)

1 Appointed 13 April 2015.
2 Retired 25 June 2015.
3 Retired 10 November 2015.
4 Appointed 1 November 2015.

Appointment and re-election of Directors

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

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

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

In accordance with the Code, all Directors are subject to reappointment every year. Accordingly, at the AGM to be held on 30 June 2016, all the Directors will retire from office. All the Directors are eligible for and seek reappointment. The Board's recommendation for the reappointment of Directors is set out in the 2016 Notice of AGM.

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

The Board approved division of responsibilities between the Chairman of the Board and the Chief Executive is described on page 60. Mr J P Asquith served as Senior Independent Director throughout the year.

Directors

Directors' biographical details are set out on page 58. The Board currently comprises the Chairman, five non-executive Directors and two Executive Directors. Mr J P Asquith, Ms C J Banszky, Mr S A Borrows, Mr D A M Hutchison, Ms M G Verluyten and Mrs J S Wilson served as Directors throughout the year under review. Sir Adrian Montague served as a Director until 25 June 2015 and Mr A R Cox served as a Director until 10 November 2015. Mr S R Thompson was appointed as a non-executive Director on 13 April 2015 (and became Chairman on 25 June 2015) and Mr P Grosch was appointed as a non-executive Director on 1 November 2015.

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 60. 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 2016. 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 3i investee company.

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

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.

Training and development

The Company has a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to 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.

The Board's committees

As described on page 60, the Board is assisted by various principal committees of the Board which report regularly to it. 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 74 to 92.

The Board discontinued its Brand and Values Committee. The work previously done by that Committee (including review of 3i's values, responsible investing policy and other reputational matters) was considered sufficiently core to the Group that it was more appropriate for it to be dealt with by the full Board.

The Company Secretary

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

Corporate Governance

Corporate governance statement

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 2016 and 1 May 2016.

	As at 31 March 2016	% of issued share capital	As at 1 May 2016	% of issued share capital
BlackRock, Inc	89,752,894	9.23	90,028,400	9.26
Artemis Investment Management LLP	66,131,467	6.80	65,244,247	6.71
UBS Global Asset Management	37,240,978	3.83	37,134,475	3.82
Threadneedle Asset Management Limited	40,818,505	4.20	40,601,830	4.17
Legal & General Investment Management Limited	30,558,207	3.14	30,658,737	3.15

Relations with shareholders and potential investors

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 maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. The Board receives reports from the Company's brokers on shareholder issues and non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

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.

Institutional investor 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 a broad group of 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 2015 capital markets day, held in June, consisted of a presentation to significant shareholders and analysts by senior 3i executives and the management teams of Scandlines and Basic-Fit, two of the investments in our Private Equity portfolio. This event was held in London. The presentations were focused on the Scandlines and Basic-Fit business model and strategy and on their 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-year 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 Auditors and the dividend declaration. During the meeting, shareholders are also asked to approve the financial statement and report of the Directors and Auditors. In addition, shareholders are asked to approve the Directors' remuneration report.

The 2015 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2016 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 becoming 75 or more, or (c) the Company being required to be registered as an investment company under relevant US legislation. The notice would require the transfer of relevant shares and pending such transfer the rights and privileges attaching to those shares would be suspended.

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

Portfolio management and voting policy

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

Corporate governance statement

Risk management and internal control

The Board has ultimate 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 2016 and up to the date of this report. Details of the risk management framework can be found in the Risk section.

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 2016.

The internal control process established for the Group includes:

Policies

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

Processes and procedures

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

Verification

- An Internal Audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management;
- The external Auditors who are engaged to express an opinion on the annual financial statements;
- An Audit and Compliance Committee which considers significant control matters and receives reports from Internal Audit, the external Auditor and Group Compliance on a regular basis;
- The risk management and internal control systems are monitored and supported by Internal Audit and Group Compliance, which operate on an international basis and report to management and the Audit and Compliance Committee on the Group's operations. The work of Internal Audit is focused on the areas of greatest risk to the Group determined with reference to the Group's risk management process; and
- The external Auditors review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion.

Financial reporting

In the context of the above framework, there are specific processes in place in relation to financial reporting, including:

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

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 57 to 81 other than the Directors' remuneration report on pages 82 to 92.

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

18 May 2016

Registered Office:
16 Palace Street
London SW1E 5JD

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."

Simon Thompson
Chairman, Nominations Committee

Membership during the year

Name	Membership status
Simon Thompson	Member since 13 April 2015 and Chairman since 25 June 2015
Sir Adrian Montague	Retired as Chairman and a member on 25 June 2015
Jonathan Asquith	Member since March 2011
Caroline Banszky	Member since July 2014
Alistair Cox	Member until 10 November 2015
Peter Grosch	Member since 1 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 on the table on page 68.

The Committee completed the process commenced in the previous year of identifying and recommending to the Board a candidate to succeed Sir Adrian Montague as chairman of the Board. This process was led by Mr Asquith as Senior Independent Director.

The Committee also considered a number of candidates for appointment as non-executive Director and recommended to the Board the appointment of Mr Grosch who was subsequently appointed as a Director on 1 November 2015.

In its work the Committee keeps in mind the balance and composition of the Board, including succession planning, and the needs of the Company in terms of the desirable experience and qualifications of future appointees as non-executive Directors.

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

Further to the publication of the Davies Report on Women on Boards, and Code Provision B.2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a 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 women candidates. External search consultancies engaged by the Committee during the year were Egon Zehnder and The Zygos Partnership. Egon Zehnder also provided other recruitment services to the Group during the year. The Zygos Partnership had no other connections with the Company during the year.

Audit and Compliance Committee report

"The Audit and Compliance Committee's priorities in FY2016 were to maintain the strength of 3i's internal control environment as well as the integrity of its financial reporting."

Caroline Banszky
Chairman, Audit and Compliance Committee

Membership during the year

Name	Membership status
Caroline Banszky (Chairman)	Member since 17 July 2014 Chairman since 1 January 2015
Jonathan Asquith	Member since March 2011
Alastair Cox	Member until 10 November 2015
Martine Verluyten	Member since 11 November 2015

The Board is satisfied that Ms Banszky and Mr Asquith have recent and relevant financial experience as outlined in the UK Corporate Governance Code. Further detail on each non-executive Director's experience can be found in the Directors' biographies on page 58.

Throughout the year, the Committee received regular reports on a number of matters including the valuation of the investment portfolio, internal audit findings and follow-up work, accounting issues and judgements, and legal and regulatory matters. In particular, the Committee focused on the developments with regard to regulation for audit tendering and the definition of non-audit services, cyber security and the requirement for a viability statement. The Committee received presentations from a number of members of senior management including the Group Finance Director, Group General Counsel and Company Secretary, Group Financial Controller, the Head of Internal Audit, the Head of Compliance and the external Auditor Ernst & Young LLP. Other attendees were invited from time to time depending on the nature of agenda items.

The Chairman of the Committee also met a number of these individuals separately in advance of the Committee meetings providing an additional forum to discuss relevant issues. During the year, the Committee held private discussions with the Group Finance Director, the Head of Internal Audit, and the Head of Group Compliance, and with the external Auditor in the absence of management.

Corporate Governance

Audit and Compliance Committee report

What the Committee reviewed in 2016

The Committee met six times during the year and the members' attendance at meetings is shown in the table on page 68. During the year the Committee's activities included considering the following:

Financial reporting

- Annual and half-yearly reports
- Quarterly performance updates
- Key accounting judgements and estimates
- Developments in financial reporting
- Fair, balanced and understandable
- Valuation reports and recommending the investment asset valuations to the Board

External audit

- Confirmation of the external Auditor's independence
- Policy and approval of non-audit fees
- The FY2016 Audit plan, including the Auditor's 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)
- Auditor performance and effectiveness
- Regulatory position with regard to audit tender

Internal control and risk management

- Review of 3i's system of internal control and risk management
- External and Internal audit reports
- Review of Corporate Governance changes including the risk appetite statement and viability statement
- Internal audit effectiveness review

Risk reviews

- Cyber security
- Regular reviews of compliance with regulatory rules
- Annual report on taxation
- Litigation
- Liquidity and going concern

In addition to areas of significant accounting judgement and monitoring the effectiveness of 3i's risk management, the Committee particularly focused on the matters described below.

As one of the changes to the UK Corporate Governance Code for the 2016 reporting year onwards, the Directors are required to make a statement in the Annual Report as to the longer-term viability of 3i as well as enhanced risk disclosures. The Committee received regular updates throughout the year on the work being undertaken to support the viability statement and risk disclosures, including forecasts for capital and liquidity, the stress tests of 3i's five-year strategic plan and an assessment of the key risks for 3i's viability. A report was prepared for the Board in January 2016 which detailed the process undertaken across the business to develop suitable scenarios against which to test 3i's financial performance as well as the results of these stress tests. This report was then updated and presented to the Committee in May 2016. The Committee agreed to recommend the viability statement and risk disclosures to the Board for approval.

The Committee received two presentations in the year from the IT Director on cyber security risk management. Management engaged external advisers in late 2015 to assess the threat to cyber security, including the potential impact of cyber attacks, on both 3i's information and infrastructure and its portfolio companies. The Committee assessed the results of this review, including the proposed actions to strengthen risk management further, and were satisfied that 3i's capability was proportionate to its size and business activity. The Committee will receive an update on cyber security and the implementation of recommended actions in FY2017.

Given the significant changes to the taxation environment announced as part of the OECD's Base Erosion Profit Shifting ("BEPS") project in October 2015, the Committee received an update on the impact of BEPS on the Group in addition to the annual update it receives from the Tax Director on the Group's taxation status more generally. As an authorised Investment Trust the Company does not pay tax on capital profits in the United Kingdom. However the changes coming into force over the next few years are expected to increase the resources needed to comply with the various reporting requirements. The Committee also considered the appropriateness of the Group's tax disclosures in the Annual Report and on its website.

The improved investment performance and good flow of realisations led the Committee to review both carried interest receivable and payable balances. Internal Audit also carried out a review of carry payable and receivable in the year. Following discussions with management and the external Auditor, the Committee was satisfied that carried interest was being appropriately accounted for.

In the year, management performed a detailed review of the IFRS 10 accounting for subsidiaries in the parent company's balance sheet. The Committee considered and reviewed the accounting adjustments as well as the external Auditor's findings and reporting in this area. These adjustments had no impact on the Group's reported result.

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 or 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.

Areas of significant accounting judgement	What the Committee reviewed and concluded
Valuation of the Proprietary Capital portfolio The most material area of judgement in the financial statements, and noted as a key risk by the external Auditor, relates to the valuation of the unquoted Proprietary Capital portfolio, which at 31 March 2016 was £3,839 million, or 86% of net assets, under the Investment basis. 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 Valuations Committee provides quarterly reports to the Committee and the Board. The valuation of the Proprietary Capital portfolio is a primary input into the carried interest accrual, which is determined by reference to the valuation at 31 March 2016.	On behalf of the Board, the Committee considered quarterly reports from the Valuations Committee, with particular focus on the assumptions supporting the unquoted asset investments, any valuation uncertainties and the proposed disclosure in the financial statements. As in 2015, the 2016 Annual report includes a separate report from the Valuations Committee. Details of the key valuation considerations and the review and challenge undertaken in the year is included in the Valuation Committee report on pages 79 to 81. The Committee reviewed the carried interest payable and receivable as part of the overall summary prepared alongside the 2016 Annual report.
Fair, balanced and understandable and the presentation of 3i's results 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 and make a statement that they considered the Annual report to be fair, balanced and understandable. On behalf of the Board, the Audit Committee considered what, if any, enhancements were necessary to current procedures to ensure that this statement could be made. The Group prepares a non-GAAP Investment basis financial statements following its adoption of IFRS 10 to ensure that its results remain understandable.	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 so as to ultimately enable the Board to provide the fair, balanced and understandable confirmation to shareholders in the 2016 Annual report. A report summarising the considerations for the 2016 Annual report was reviewed by the Audit Committee in advance of the year end and a summary of the detailed procedures undertaken was prepared alongside the 2016 Annual report. The Committee was satisfied that maintenance of the Investment basis financial statements was appropriate. The external Auditor states in its audit report that the information given in the FY2016 Strategic report and Corporate Governance report is consistent with the financial statements.

Risk and internal control reviews

The Committee holds responsibility 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, the Group's whistleblowing arrangements and the activities of the Internal Audit function, including its reporting on the effectiveness of internal controls.

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 Head of Internal Audit provided an annual assessment of the Group's risk management and internal control systems for presentation to the Committee. The review documents the components of the risk management and internal control framework and highlights the key developments in the year, along with commentary on their operation over the year. The effectiveness of such controls is reviewed by Internal Audit, either through dedicated procedures or in the course of other Internal Audit reviews over 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 have been in place throughout the financial year and up to the date this report was approved.

Corporate Governance

Audit and Compliance Committee report

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 and subsequent updates. It also received a quarterly report from the Head of Internal Audit summarising the audits concluded in the period and periodical updates on outstanding agreed actions from previous reports. The Head of Internal Audit meets the Committee privately as well as meeting regularly with the Audit Committee Chairman throughout the year.

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 to the Board the reappointment of Ernst & Young LLP as auditor.

Auditor appointment and independence

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

The total audit fee for the year was £2.0 million (2015: £2.0 million). The Committee is satisfied that this fee is appropriate in respect of the audit services provided and that an effective audit can be provided. The Committee oversees the Group's policy on the provision of non-audit services by the external auditor. The Committee continues to see benefits for the Group in engaging Ernst & Young LLP where:

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

The Committee Chairman is notified of all assignments allocated to Ernst & Young LLP over a defined limit, other than those related to due diligence within the Group's investment process. 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. Appointments in relation to the investment process are independent of the audit team and are reviewed separately by the Investment Committee but are reported to the Audit and Compliance Committee Chairman.

Details of the non-audit fees paid to the auditors 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 and quality 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 Assurance, together with their Head of Financial Services Assurance Practice to discuss their approach to audit quality, and what assurance had been taken in connection with their audit of 3i.

The 2016 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

The Committee is cognisant of the requirements governing the appointment of an external Auditor, notably the requirements of the Competition and Markets Authority ("CMA") in relation to the mandatory re-tendering of audit services every 10 years, together with the European Union's requirements for mandatory firm rotation. The Group confirms that it has complied with the provisions of the CMA's Order for the financial year under review.

During the year the Committee received regular updates on the Group's position on its external audit and potential tender. Of particular interest to 3i was the Financial Reporting Council's consultation, released in September 2015, on the implementation of the EU legislation and the application of the rules, particularly around the components of an audit group. The scale of the current engagement across the Group and its portfolio companies with firms that may participate in any tender, as well as the complexities around how the rules would apply to Private Equity investments, 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 when mandatory rotation will be required. As a result, Ernst & Young LLP replaced the lead audit partner in March 2016 to enable continuity throughout the period to 2020.

By order of the Board

C J Banszky
Chairman, Audit and Compliance Committee

18 May 2016

Further information on the Audit and Compliance Committee's terms of reference can be found at
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."

David Hutchison
Chairman, Valuations Committee

The Valuations Committee reports to the Audit and Compliance Committee and the Board on the valuation of the Group's investment assets. It meets quarterly, to coincide with the Group's external financial reporting calendar. It reviews and challenges the assumptions behind management's proposed investment 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. In light of the Group's increased capital allocation to Debt Management and the market volatility seen in the second half of the year in particular, the Committee also focused on the Group's Debt Management CLO equity portfolio and the principal drivers behind its valuation. As in previous years, the Committee devoted limited time to Infrastructure due to the fact that its principal investment is its shareholding in the quoted 3i Infrastructure plc.

The Committee is responsible for keeping the Group's valuation policy under review and recommending any changes to the policy to Audit and Compliance Committee and the Board. The policy is reviewed at least annually with the last update in January 2016. The Group's valuation policy is based on the International Private Equity and Venture Capital ("IPEV") Guidelines which set out recommended practice for fair valuing unquoted investments within the IFRS framework.

Overview of the Valuation Process

The Committee receives a detailed report from the Group Finance Director recommending a proposed valuation of the Group's investment portfolio. This report highlights the key themes by business line and the main drivers of value movement analysed between performance, multiple movements and other factors. At each meeting the Committee also reviews selected assets for detailed discussion; examples of such assets covered during the year included Action, Basic-Fit, Scandlines, AES, JMJ and Dynatect.

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 all the meetings held in September 2015 and March 2016 and were represented at all of the top five Private Equity portfolio company review meetings.

As part of its external audit, Ernst & Young LLP undertakes a separate review of 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, Ernst & Young LLP's specialist valuations teams independently reviewed a selection of Private Equity and Debt Management investments to provide further assurance on their overall audit conclusion on the appropriateness of 3i's portfolio valuation.

Membership during the year

Name	Membership status
David Hutchison (Chairman)	Chairman and Member since December 2013
Sir Adrian Montague	Member until June 2015
Simon Thompson	Member since April 2015
Peter Grosch	Member since January 2016
Martine Verluyten	Member since 2012
Simon Borrows	Member since 2012
Julia Wilson	Member since 2009

Meetings are also attended by other members of the Executive Committee as required, the Group Financial Controller and the external Auditor. In addition the Chairman also met privately with the external Auditor to discuss their approach to the year-end audit.

Corporate Governance

Valuations Committee report

FY2016 update

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

Areas of judgement	What the Committee did
Private Equity **Earnings and multiple assumptions** The majority (74%) 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". 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&A transactions and input in certain cases from corporate finance advisers. Management also take into account growth profile, geographic location, diversification and leverage/refinancing risk. The multiple implied by the quoted comparable may be adjusted if the longer-term view (cycle or exit plan) supports the use of more conservative multiples. This has been a particularly important exercise in light of the increased volatility experienced in the quoted equity markets over the period under review.	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 or excluding exceptional transaction costs. Material adjustments are highlighted to the Committee in the quarterly report for review and approval. Management continued to adjust a significant proportion of multiples used if the longer-term view (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. Ernst & Young LLP also specifically review and consider the appropriateness of a sample of these adjustments and reports to the Committee.
Imminent sale assets At any point in time a number of potential exit processes from the portfolio may be underway. Judgement is applied by management as to the likely eventual exit proceeds and certainty of completion. This means that in some cases the valuation of 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 the valuation of an asset moves to an imminent sale basis only when a process is materially complete and the remaining risks are estimated to be minimal, taking into account the normal completion risk around unquoted equity transactions.	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.
Assets valued using a DCF basis 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 appropriate discount rates.	Material assumptions and significant changes to these assumptions are reviewed by the Committee. This may include third-party support if available. Sensitivity to assumptions is also noted. 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.
Debt Management **CLO equity valuation process** The level of capital deployed into Debt Management investments at 31 March 2016 was £229 million (31 March 2015: £176 million). 66% of this relates to investment in CLO equity where there is infrequent trading and therefore little third-party evidence of value. Consequently, judgement is required on the choice of basis to use for CLO valuations, including use of broker marks and internal DCF models.	Reflecting the market volatility in the second half of the year, management increased the level of information provided to the Committee to allow it to assess the appropriateness of the valuations. This included input from the relevant credit teams regarding the underlying assets. The use by management of independent data, such as broker marks supporting the proposed valuations increased and broker marks are the primary data point to determine fair value. The quarterly valuation report includes a range indicated from all available data points, including internal DCF models, against the proposed valuation. The range and actual values are reviewed by the Committee. Ernst & Young LLP also selected a sample of CLOs for valuation by their valuation specialists in order to review the appropriateness of management's valuation and included their results in a report to the Committee.

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

– Considered the management information provided to support the Committee's review of the portfolio valuation, including the strength and operation of the internal controls and management's responses to any challenges raised by the Committee members or Ernst & Young LLP;

– Sought assurance from the external Auditor as to whether and how it had considered each of these areas;

– 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

As noted in the prior year's report, 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 2016 on the key observations.

By order of the Board

D A M Hutchison
Chairman, Valuations Committee

18 May 2016

Further information on the Valuation Committee's terms of reference can be found at

www.3i.com

Corporate Governance

Directors' remuneration report

"We remain committed to maintaining a remuneration framework which supports the achievement of our strategic objectives."

Jonathan Asquith
Chairman, Remuneration Committee

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 2015 to 31 March 2016 ("the year") and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "the current year" or "FY2017" relate to the financial year 1 April 2016 to 31 March 2017.

At our 2014 Annual General Meeting, our Remuneration policy was approved. That policy has served us well and we are not proposing any changes to it at this time. The policy is available on our website **www.3i.com/investor-relations/results-and-reports/reports**.

Performance in the year

I am pleased to report, as you will have read earlier in this Annual report, that this has been another successful year for the Company. The business has continued to execute its well established strategy and performed resiliently in the face of volatile macro-economic conditions. Robust unrealised value growth, particularly in our largest and strongest investments, such as Action, Scandlines and 3i Infrastructure plc, together with a good flow of realisations and continued cost discipline, have driven an excellent total return on opening shareholders' funds of 21.7% (2015: 19.9%).

The strong performance of the Company has been reflected in the Committee's decisions concerning the Executive Directors' remuneration. Further information on this assessment is provided on pages 84 to 87. Highlights of these achievements include:

Portfolio return

Exceptional performance of the Private Equity portfolio as well as good returns from the Infrastructure portfolio generated a gross investment return of £1,069 million (2015: £805 million) or 28% of opening portfolio value. This materially exceeded target and higher than the previous year (2015: 23%).

Investment

Throughout the period, management continued its disciplined and selective approach to investment. Despite this, the investment momentum seen in FY2015 continued through FY2016 with three key investments completed in Private Equity: Weener Plastic; Euro-Diesel; and Audley Travel. The Infrastructure business also completed four new investments, while Debt Management successfully completed £1.3 billion of new CLO issuance in the year.

Operating profit

Annual operating cash profits improved from £28 million in FY2015 to £37 million in FY2016, which was significantly above target.

Strategy and people

The strategic re-positioning of the Infrastructure business and related team hires enabled the business to expand its capabilities and deliver on a broader investment mandate.

2013–16 Performance

Shortly after Simon Borrows was appointed as Chief Executive in 2012 and as part of the three-year strategic plan that was set out at that time, the terms of the LTIP scheme were discussed and supported by our larger shareholders. In order to ensure that management remained focused on delivering the three-year turnaround in the business, it was decided that the 2013 LTIP award would be split with 50% relating to Total Shareholder Return over the three-year performance period and 50% equally divided between two strategic objectives concerning the restructuring of the cost base and the elimination of the annual operating cash deficit which had been an unwelcome feature of the business in prior years. The three-year performance period for this award started on 1 April 2013 and ended on 31 March 2016. Total Shareholder Return over the three-year period was 20.2%, well above the maximum target of 18%. For the two strategic objectives, the Committee has concluded that the performance has been either good or exceptional and therefore most of the award aligned to these objectives will vest. More detail on the performance can be found on page 87.

Regulatory changes in the year

During FY2016, 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, 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 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 in cash bonus and half in 3i Group plc shares which are subject to a six-month retention period.

The Committee has reviewed the malus provision, which remains substantially unchanged, and introduced a clawback policy, which is shown on page 91, complying with the new requirements of the UK Corporate Governance Code.

Committee priorities and potential changes in the current year

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

The Remuneration policy was approved in 2014 and is now in its third year of operation. The policy will be reviewed during the year and be presented to shareholders for approval at the 2017 AGM. If there are any substantial changes to the policy we will consult with major shareholders and the appropriate institutional groups.

Jonathan Asquith
Chairman, Remuneration Committee

18 May 2016

Corporate Governance

Directors' remuneration report

Policy report

The policy, as set out in the 2014 Directors' remuneration report, was formally approved by shareholders at the 2014 Annual General Meeting on 17 July 2014. No amendments to the policy are proposed for the current year and so shareholders will not be asked to vote on the policy at the 2016 Annual General Meeting.

The policy is available on our website at www.3i.com/investor-relations/results-and-reports/reports.

The Annual report of remuneration (Implementation report)

Director remuneration for the year

Single total figure of remuneration for each Director

£'000	FY2016						FY2015						
	Salary/ fees	**Benefits**	**Pension**	**Annual bonus**	**LTIP**	**Total**	Salary/ fees	Benefits	Pension	Annual bonus	LTIP (no performance condition)	LTIP (performance condition)	Total
S A Borrows	**579**	**15**	**16**	**2,159**	**3,052**	**5,821**	562	15	15	2,096	696	4,894	8,278
J S Wilson	**421**	**18**	**44**	**902**	**1,387**	**2,772**	409	17	45	850	–	2,225	3,546
S Thompson	**239**	**–**	**–**	**–**	**–**	**239**	–	–	–	–	–	–	–
Sir Adrian Montague	**70**	**–**	**–**	**–**	**–**	**70**	295	–	–	–	–	–	295
J P Asquith	**122**	**–**	**–**	**–**	**–**	**122**	111	–	–	–	–	–	111
C J Banszky	**103**	**–**	**–**	**–**	**–**	**103**	61	–	–	–	–	–	61
A R Cox	**50**	**–**	**–**	**–**	**–**	**50**	80	–	–	–	–	–	80
P Grosch	**69**	**–**	**–**	**–**	**–**	**69**	–	–	–	–	–	–	–
D A M Hutchison	**91**	**–**	**–**	**–**	**–**	**91**	92	–	–	–	–	–	92
R H Meddings	**–**	**–**	**–**	**–**	**–**	**–**	27	–	–	–	–	–	27
M G Verluyten	**74**	**–**	**–**	**–**	**–**	**74**	72	–	–	–	–	–	72

– 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 £44k respectively.

– Annual bonus awards made in respect of the year are delivered as 60% payable in 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 2017 and all share awards carry the right to receive dividends and other distributions.

– In the case of Ms Banszky the sum shown (which includes VAT) was paid to her principal employer, the Law Debenture Corporation p.l.c., which released her to serve as a non-executive Director.

– In the case of Mr Grosch the sum shown includes €50k of fees paid to him by EURO-DIESEL (a 3i portfolio company) for his role as Chairman.

– In addition to the table above, dividends on invested deferred share awards were paid during the year (Mr Borrows £150k, Mrs Wilson £50k).

– The values shown in the LTIP represent the performance shares vesting from the 2013 LTIP, together with the value of accrued dividends on those shares. The shares have been valued using the 31 March 2016 closing share price (456.4 pence). Further detail is provided on page 87.

– 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 £68k from The British Land Company PLC and £32k from Inchcape plc, and Mrs Wilson retained directors' fees of £105k from Legal and General Group plc.

FY2016 Annual bonus

The annual bonuses for Executive Directors for the year were awarded against a balanced scorecard of both financial and strategic measures agreed by the Committee in May 2015. 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.

The performance achieved against the scorecard metrics supports the commentary within this Annual report and accounts that FY2016 was another exceptionally strong year. Highlights included:

- Materially higher gross investment return of 28% against a target of 15% on opening portfolio value;
- Significant new investments across all business areas, while maintaining a disciplined and selective approach to investment opportunities; and
- Positive operating cash profit significantly above target and higher than FY2015.

FY2016 has been an exceptional year, with performance being significantly ahead of targets and expectations across the Company.

Corporate Governance

Directors' remuneration report

FY2016 Performance

Area of strategic focus	Weighting (%)	Metrics considered	Target/Expectation		Performance[1]	Comments
Portfolio return	50%	Gross investment return (% of opening portfolio value)	T	£563m (15%)	£1,069m (28%)	Gross investment return materially exceeded target and surpassed that of the previous financial year.
		Private Equity cash income	T	£31m	£50m	Interest and dividends generated from Private Equity were strong.
		3iN investment return	T	8% to 10%	14%	3iN's investment return outperformed its target.
		3iN return of capital	T	£51m	£51m	Payment of special dividend by 3iN in July 2015.
Investment	25%	New capital invested in Private Equity	E	€500m – €750m	€497m/£365m	Private Equity investment levels in line with prior year while maintaining a disciplined and selective approach to new investments.
		New CLO issuance in Europe and US	E	n/a*	£1.3bn	Continued growth in CLO assets under management despite more challenging global credit conditions, which also impacted 3i's mark-to-market returns.
		New 3iN capital committed in Core/PPP	E	n/a*	£193m	New 3iN investment commitments in line with target.
Operating profit	10%	Operating cash profit	T	£23m	£37m	Operating cash profit for the year was above target and showed strong performance and growth compared with FY2015.
		Operating costs as a percentage of AUM	T	1.0%	1.0%	Operating costs remained steady vs prior year.
		Group underlying FM profits (margin %)	T	£22m (18%)	£27m (22%)	Underlying FM profits above target.
Strategy and people	15%	Achievement of strategy and people targets is measured against a balanced scorecard of objectives set by the Remuneration Committee				Continued growth and development of business post the three-year strategic restructuring plan completed in FY2015. Positive feedback from shareholders who continue to be supportive of the progress and development of the business achieved during the year. Completion of strategic re-positioning of the Infrastructure business to broaden investment mandate and expand capabilities. Completed acquisition of the minority shareholdings in DM Europe and DM US allowing Group to become the 100% owner of the Debt Management business. Development, retention and succession plans for the Group's key talent and leadership team in place and progressing according to plan.

1 All numbers are under the Investment basis.

T = Target E = Expectation

* Some 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. In practice, the Board's expectations in these areas 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 FY2016 of £2,158,932 (being 92.5% of his maximum bonus opportunity), and awarded Mrs Wilson a bonus in respect of FY2016 of £901,765 (being 85% 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 and clawback policy.

Share awards subject to performance conditions vesting in 2016 subject to performance conditions

2013 Long-term incentive award

The long-term incentive awards granted in June 2013 to Mr Borrows and Mrs Wilson were subject to performance conditions based on absolute Total Shareholder Return and targets related to aligning costs with income and ensuring a fairer split of returns between shareholders and employees over the three financial years to 31 March 2016. The table below shows the achievement against these conditions and the resulting proportion of the awards which will vest in June 2016.

	Weighting	Threshold		Maximum		Actual	
Total Shareholder Return measure	%	Performance	% vesting	Performance	% vesting	Performance	% vesting
Absolute Total Shareholder Return	50%	10% p.a.	20%	18% p.a.	100%	20.2%	100%

Strategic Measure	Weighting	Performance	% vesting
Progress achieved covering the Group's operating costs relative to fee income	25%	An Operating cash profit was achieved in each of the three performance years of £5m (FY14), £28m (FY15) and £37m (FY16).	100%
Progress achieved in reducing remuneration costs relative to fee income	25%	Remuneration costs have been reduced from £98m in FY13 to £83m in FY16. Remuneration costs as a percentage of fee income have been reduced from 70% to 61% over the performance period, as compared to an expectation of a reduction to 60%.	92%

The table below shows the grants made to each Executive Director on 10 June 2013 at a share price of 358.7 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 2016 closing share price of 456.4 pence.

	Basis of award at grant	Face value at grant	Number of shares awarded at 358.7p per share	% vesting	Number of shares vesting	Value of share vesting at 456.4p per share
S A Borrows	Face value award of 4 times base salary of £550k	£2,200k	613,325	98%	601,058	£2,743k
J S Wilson	Face value award of 2.5 times base salary of £400k	£1,000k	278,784	98%	273,208	£1,247k

The proportion of the award vesting will be released 50% in September 2016, 25% in June 2017 and 25% in June 2018 together with the value of dividends that would have been received during the period from grant to the release date. Dividends totalling 51.4p per share were accrued from 1 June 2013 to 31 March 2016. The value of the accrued dividend on the shares vesting is £309k for Mr Borrows and £140k for Mrs Wilson.

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 2015 and the year to 31 March 2016.

	Salary	Benefits	Bonus
Chief Executive	3%	0%	3%
All other employees	5%	0%	13%

Corporate Governance

Directors' remuneration report

Details of share awards granted in the year

LTIP

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

Description of award	A performance share-based award, which releases shares, subject to satisfying the three year 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 418,768 shares. Group Finance Director – 250% of salary, being 190,349 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 2015 annual results (541.1p).
Performance period	1 April 2015 to 31 March 2018.
Performance targets	50% of the award is based on absolute TSR measured over the performance period, and vests: – 0% vesting below 10% p.a. TSR; – 20% vesting at 10% p.a. TSR; – Straight-line vesting between 10% and 18% p.a. TSR; and – 100% vesting at 18% p.a. TSR. 50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests: – 0% vesting for below median performance against the index; – 25% vesting for median performance against the index; – 100% vesting for upper quartile performance against the index; and – Straight-line vesting between median and upper quartile performance.
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 FY2016

Under the Deferred Bonus Plan, share awards were granted to the Executive Directors on 4 June 2015 in respect of FY2015 performance with a face value of £1,048,000 (193,680 shares) for the Chief Executive and £425,000 (78,519 shares) for the Group Finance Director. These face values were reported in the 2015 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 2015 (14 May 2015 to 20 May 2015), which was 541.1 pence. These awards are not subject to further performance conditions and vest in four equal instalments annually from 1 June 2016.

Share Incentive Plan

During the year, Mrs Wilson participated in the HMRC approved Share Incentive Plan which during the year allowed employees to invest up to £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 367 partnership shares, and received 734 matching shares and 530 dividend shares at prices ranging between £4.3297 and £5.5633 per share, with an average price of £4.9489.

Pension arrangements

Mr Borrows and Mrs Wilson received salary supplements in lieu of pension of £16k and £44k respectively.

Payments to past Directors

No payments were made to past Directors in the year.

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 1.5 times gross salary for the Group Finance Director. In addition, shareholding targets have been introduced for other members of Executive Committee of 1.5 times their gross salaries and for partners in the Group's businesses of 1.0 times their gross salaries.

Details of Directors' interests (including interests of their connected persons) in the Company's shares as at 31 March 2016 are shown below. The share price on 31 March 2016 was £4.564.

	Owned outright[1]	Deferred shares[2]	Subject to performance	Shareholding requirement	Current shareholding (% salary)
S A Borrows[3]	10,140,192	1,858,150	986,217	300%	7,931%
J S Wilson[3]	200,625	760,287	448,280	150%	216%

	Shares owned outright
S Thompson[3]	41,156
J P Asquith[3]	14,001
C Banszky[3]	6,000
P Grosch[3]	1,249
D Hutchison[3]	56,966
M G Verluyten[3]	21,000

From 1 April 2016 to 1 May 2016, Mrs Wilson became interested in a further 31 shares overall outright (SIP Partnership Shares) and a further 62 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

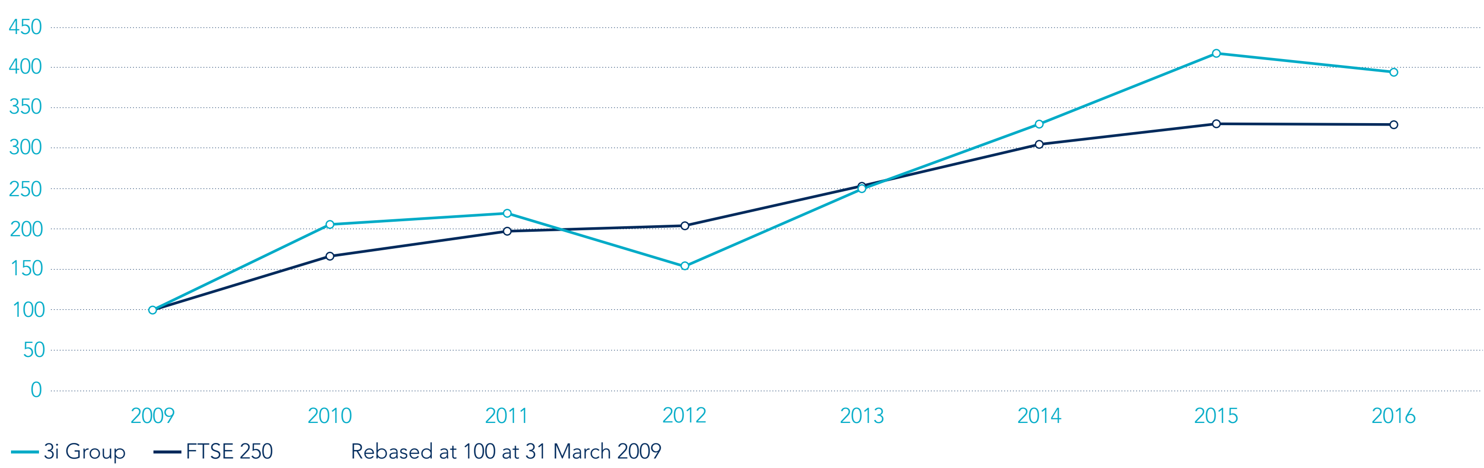
1 The share interests shown for Mrs Wilson include shares held in the 3i Group Share Incentive Plan. The owned outright column includes partnership and dividend shares under the SIP. The deferred shares column includes matching shares under the SIP.
2 The number of deferred shares shown include the proportion of the 2012 and 2013 Performance Share awards that have vested due to meeting the relevant performance conditions but have not yet been released.
3 Directors are restricted from hedging their exposure to the 3i share price.

Performance graph and table

TSR Graph

This graph compares the Company's total shareholder return for the seven financial years to 31 March 2016 with the total shareholder return of the FTSE 250 Index, which reflects the Company's portfolio of international investments.

3i total shareholder return vs FTSE 250 total return over the seven years to 31 March 2016



Corporate Governance

Directors' remuneration report

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
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[1]	S A Borrows	2,932	90%	n/a
	M J Queen	429	0%	0%
FY2012	M J Queen	641	0%	0%
FY2011	M J Queen	1,305	54%	0%
FY2010	M J Queen	1,989	75%	0%

1 M J Queen ceased to be a Director on 16 May 2012. Mr Borrows was appointed Chief Executive on 17 May 2012 having previously been Chief Investment Officer.

Relative importance of spend on pay

	2015/16	2014/15	Change %
Remuneration of all employees	£83m	£85m	(2)%
Dividends paid to shareholders	£190m	£183m	4%

Statement of implementation of the remuneration policy in the coming year

The table below sets out how the Committee intend to operate the remuneration policy in FY2017.

Policy element	Implementation of policy during FY2017
Base salary	A Group-wide 3% increase to salaries will take place in FY2017, which will also be applied to Executive Director salaries. Effective from 1 July 2016, salaries for the Executive Directors will therefore be as follows: – Chief Executive: £601,000 – Group Finance Director: £437,090
Pension	No changes to the current arrangements are proposed for FY2017. The Executive Directors will continue to receive a pension contribution or salary supplement as follows: – Chief Executive: £15k – Group Finance Director: 12% of salary
Benefits	No changes to the current arrangements are proposed for FY2017. Benefits will continue to include a car allowance, provision of health insurance and any Share Incentive Plan matching share awards.
Annual bonus	The maximum annual bonus opportunities for FY2017 will remain unchanged, in line with the remuneration policy, as follows: – Chief Executive: 400% of salary – Group Finance Director: 250% of salary Awards over 75% of this maximum will be made only in exceptional circumstances. 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. Measures for the FY2017 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. The Committee considers that the specific targets and expectations contained within the FY2017 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. At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years. Awards are subject to the Company's malus and clawback policy.

Policy element	Implementation of policy during FY2017
Long-term incentive plan	Awards under the long-term incentive plan in FY2017 will be made as follows: – Chief Executive: 400% of salary – Group Finance Director: 250% of salary 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: 50% of the award is based on absolute TSR measured over the performance period, and vests: – 0% vesting below 10% p.a. TSR; – 20% vesting at 10% p.a. TSR; – Straight-line vesting between 10% and 18% p.a. TSR; and – 100% vesting at 18% p.a. TSR. 50% of the award is based on relative TSR measured against the FTSE 350 Index over the performance period, and vests: – 0% for below median performance against the index; – 25% for median performance against the index; – 100% for upper quartile performance against the index; and – Straight-line vesting between median and upper quartile performance. Awards are subject to the Company's malus and clawback policy.
Shareholding requirements	No changes to the current arrangements are proposed for FY2017. Shareholding requirements will therefore remain as follows: – Chief Executive: 300% of salary – Group Finance Director: 150% of salary
Non-executive Director fees	No changes to the current arrangements are proposed for FY2017. Fees for the non-executive Directors will therefore remain as follows: **Chairman fee:** £265,000 plus £30,000 in 3i shares **Non-executive Directors:** Board membership fee: £50,000 plus 3,000 3i shares Deputy Chairman (including SID fee) £40,000 Senior Independent Director fee: £10,000 Committee chairman: £20,000 Committee member: £8,000 Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.
Malus and clawback policy	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. 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.

Corporate Governance

Directors' remuneration report

Consideration by the Directors of matters relating to Directors' remuneration

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

Remuneration Committee

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	6	6
C J Banszky	Non-executive Director	Member since November 2015	1	1
A R Cox	Non-executive Director	Member until November 2015	5	5
D A M Hutchison	Non-executive Director	Member since December 2013	6	6

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 to it during the year and is satisfied that it has been objective and independent. Deloitte's total fees for advice given to the Committee during the year were £44,900 (excluding VAT).

The 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.

Shareholder voting on remuneration

At the 2015 AGM, shareholders approved the Remuneration report that was published in the 2015 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 2015 AGM	685,019,657 (94.95%)	36,419,909 (5.05%)	721,439,566	3,769,969
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 84 to 90 have been audited by Ernst & Young LLP.

By order of the Board

Jonathan Asquith
Chairman, Remuneration Committee

18 May 2016

Consolidated statement of comprehensive income

for the year to 31 March

	Notes	2016 £m	2015 £m
Realised profits over value on the disposal of investments	2	**11**	54
Unrealised profits on the revaluation of investments	3	**92**	236
Fair value movements on investment entity subsidiaries	11	**591**	530
Portfolio income			
Dividends		**58**	36
Income from loans and receivables		**26**	38
Fees receivable		**8**	6
Foreign exchange on investments		**41**	(49)
Gross investment return		**827**	851
Fees receivable from external funds		**79**	80
Operating expenses	4	**(132)**	(122)
Interest received		**4**	3
Interest paid		**(47)**	(49)
Movement in the fair value of derivatives		**–**	(1)
Exchange movements		**65**	(61)
(Expense)/income from investment entity subsidiaries		**(10)**	1
Carried interest			
Carried interest and performance fees receivable	13	**78**	80
Carried interest and performance fees payable	13	**(40)**	(72)
Acquisition related earn-out charges		**(5)**	(8)
Operating profit before tax		**819**	702
Income taxes	7	**(2)**	(2)
Profit for the year		**817**	700
Other comprehensive income/(expense) that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		**13**	(27)
Other comprehensive expense that will not be reclassified to the income statement			
Re-measurements of defined benefit plans	26	**(6)**	(14)
Other comprehensive income for the year		**7**	(41)
Total comprehensive income for the year ("Total return")		**824**	659
Earnings per share			
Basic (pence)	8	**85.6**	73.9
Diluted (pence)	8	**85.2**	72.9
Dividend per share			
Interim dividend per share paid (pence)	9	**6.0**	6.0
Final dividend per share (pence)	9	**16.0**	14.0

Financial statements

Consolidated statement of financial position

as at 31 March

	Notes	2016 £m	2015 £m
Assets			
Non-current assets			
Investments			
Quoted investments	10	**297**	399
Unquoted investments	10	**1,243**	1,272
Investments in investment entity subsidiaries	11	**2,680**	2,079
Investment portfolio		**4,220**	3,750
Carried interest and performance fees receivable	13	**89**	43
Other non-current assets	15	**37**	21
Intangible assets	14	**12**	19
Retirement benefit surplus	26	**132**	136
Property, plant and equipment		**5**	4
Deferred income taxes	7	**3**	3
Total non-current assets		**4,498**	3,976
Current assets			
Carried interest and performance fees receivable	13	**28**	45
Other current assets	15	**31**	33
Deposits		**40**	–
Cash and cash equivalents		**957**	861
Total current assets		**1,056**	939
Total assets		**5,554**	4,915
Liabilities			
Non-current liabilities			
Trade and other payables	18	**(27)**	(25)
Carried interest and performance fees payable	13	**(85)**	(72)
Acquisition related earn-out charges payable		**–**	(10)
Loans and borrowings	16	**(575)**	(815)
Retirement benefit deficit	26	**(20)**	(19)
Deferred income taxes	7	**–**	(1)
Provisions	17	**(1)**	(5)
Total non-current liabilities		**(708)**	(947)
Current liabilities			
Trade and other payables	18	**(99)**	(127)
Carried interest and performance fees payable	13	**(20)**	(13)
Acquisition related earn-out charges payable		**(1)**	(17)
Loans and borrowings	16	**(262)**	–
Current income taxes		**(2)**	(2)
Provisions	17	**(7)**	(3)
Total current liabilities		**(391)**	(162)
Total liabilities		**(1,099)**	(1,109)
Net assets		**4,455**	3,806
Equity			
Issued capital	19	**719**	719
Share premium		**784**	784
Capital redemption reserve		**43**	43
Share-based payment reserve		**32**	31
Translation reserve		**229**	216
Capital reserve		**2,080**	1,519
Revenue reserve		**622**	573
Own shares	20	**(54)**	(79)
Total equity		**4,455**	3,806

Simon Thompson
Chairman
18 May 2016

Consolidated statement of changes in equity

for the year to 31 March

2016	**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**	**31**	**216**	**1,519**	**573**	**(79)**	**3,806**
Profit for the year						**705**	**112**		**817**
Exchange differences on translation of foreign operations					**13**				**13**
Re-measurements of defined benefit plans						**(6)**			**(6)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**13**	**699**	**112**	**–**	**824**
Share-based payments				**15**					**15**
Release on forfeiture of share options				**(14)**			**14**		**–**
Exercise of share awards						**(25)**		**25**	**–**
Ordinary dividends							**(77)**		**(77)**
Additional dividends						**(113)**			**(113)**
Total equity at the end of the year	**719**	**784**	**43**	**32**	**229**	**2,080**	**622**	**(54)**	**4,455**

2015	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	718	782	43	19	243	1,050	542	(89)	3,308
Profit for the year						599	101		700
Exchange differences on translation of foreign operations					(27)				(27)
Re-measurements of defined benefit plans						(14)			(14)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(27)**	**585**	**101**	**–**	**659**
Share-based payments				19					19
Release on forfeiture of share options				(7)			7		–
Exercise of share awards						(10)		10	–
Ordinary dividends							(77)		(77)
Additional dividends						(106)			(106)
Issue of ordinary shares	1	2							3
Total equity at the end of the year	**719**	**784**	**43**	**31**	**216**	**1,519**	**573**	**(79)**	**3,806**

Consolidated cash flow statement

for the year to 31 March

	2016 £m	2015 £m
Cash flow from operating activities		
Purchase of investments	**(87)**	(116)
Proceeds from investments	**236**	270
Cash inflow from investment entity subsidiaries	**206**	272
Net cash flow from derivatives	**(14)**	9
Portfolio interest received	**5**	14
Portfolio dividends received	**58**	35
Portfolio fees received	**7**	10
Fees received from external funds	**78**	77
Carried interest and performance fees received	**52**	6
Carried interest and performance fees paid	**(13)**	(14)
Acquisition related earn-out charges paid	**(30)**	(10)
Operating expenses	**(134)**	(116)
Income taxes paid	**–**	(5)
Net cash flow from operating activities	**364**	432
Cash flow from financing activities		
Issue of shares	**–**	3
Repurchase of B shares	**–**	(6)
Dividend paid	**(190)**	(183)
Interest received	**4**	3
Interest paid	**(51)**	(54)
Net cash flow from financing activities	**(237)**	(237)
Cash flow from investing activities		
Purchases of property, plant and equipment	**(1)**	–
Net cash flow from deposits	**(40)**	–
Net cash flow from investing activities	**(41)**	–
Change in cash and cash equivalents	**86**	195
Cash and cash equivalents at the start of year	**861**	674
Effect of exchange rate fluctuations	**10**	(8)
Cash and cash equivalents at the end of year	**957**	861

Company statement of financial position
as at 31 March

	Notes	2016 £m	2015 (restated)[1] £m	1/4/2014 (restated)[1] £m
Assets				
Non-current assets				
Investments				
Quoted investments	10	**297**	334	242
Unquoted investments	10	**1,103**	1,082	1,166
Investment portfolio		**1,400**	1,416	1,408
Carried interest and performance fees receivable		**82**	33	8
Interests in Group entities	22	**2,848**	2,401	2,134
Other non-current assets	15	**17**	5	4
Total non-current assets		**4,347**	3,855	3,554
Current assets				
Carried interest and performance fees receivable		**5**	–	–
Other current assets	15	**9**	12	13
Derivative financial instruments		**–**	–	2
Deposits		**40**	–	–
Cash and cash equivalents		**857**	735	604
Total current assets		**911**	747	619
Total assets		**5,258**	4,602	4,173
Liabilities				
Non-current liabilities				
Carried interest and performance fees payable		**(1)**	(2)	(2)
Acquisition related earn-out charges payable		**–**	(10)	(16)
Loans and borrowings	16	**(575)**	(815)	(849)
B shares		**–**	–	(6)
Total non-current liabilities		**(576)**	(827)	(873)
Current liabilities				
Trade and other payables	18	**(417)**	(319)	(300)
Acquisition related earn-out charges payable		**(1)**	(11)	(10)
Loans and borrowings	16	**(262)**	–	–
Derivative financial instruments		**–**	–	(4)
Current income taxes		**–**	(1)	–
Total current liabilities		**(680)**	(331)	(314)
Total liabilities		**(1,256)**	(1,158)	(1,187)
Net assets		**4,002**	3,444	2,986
Equity				
Issued capital	19	**719**	719	718
Share premium		**784**	784	782
Capital redemption reserve		**43**	43	43
Share-based payment reserve		**32**	31	19
Capital reserve		**2,462**	1,895	1,431
Revenue reserve		**16**	51	82
Treasury shares		**(54)**	(79)	(89)
Total equity		**4,002**	3,444	2,986

1 Restated. See Note 31 of the financial statements.

Simon Thompson
Chairman
18 May 2016

Financial statements

Company statement of changes in equity

for the year to 31 March

2016	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Treasury shares £m	Total equity £m
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
Total comprehensive income for the year	–	–	–	–	705	28	–	733
Share-based payments				15				15
Release on forfeiture of share options				(14)		14		–
Exercise of share awards					(25)		25	–
Ordinary dividends						(77)		(77)
Additional dividends					(113)			(113)
Total equity at the end of the year	719	784	43	32	2,462	16	(54)	4,002

2015 (restated)[1]	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Treasury shares £m	Total equity £m
Total equity at the start of the year[1]	718	782	43	19	1,431	82	(89)	2,986
Profit for the year[1]					580	39		619
Total comprehensive income for the year	–	–	–	–	580	39	–	619
Share-based payments				19				19
Release on forfeiture of share options				(7)		7		–
Exercise of share awards[1]					(10)		10	–
Ordinary dividends						(77)		(77)
Additional dividends					(106)			(106)
Issue of ordinary shares	1	2						3
Total equity at the end of the year	719	784	43	31	1,895	51	(79)	3,444

1 In accordance with the restatement detailed in Note 31, the capital reserve at 1 April 2014 has been restated from £1,368 million to £1,431 million, the revenue reserve has been restated from £85 million to £82 million and treasury shares has been restated from nil to £(89) million. We have restated capital reserve profit for the year from £138 million to £580 million, revenue reserve profit for the year from £75 million to £39 million and the exercise of share awards from nil to £10 million.

Company cash flow statement
for the year to 31 March

	2016 £m	2015 (restated)[1] £m
Cash flow from operating activities		
Purchase of investments	**(37)**	(28)
Proceeds from investments	**232**	236
Distributions from subsidiaries	**530**	635
Drawdowns by subsidiaries	**(332)**	(503)
Net cash flow from derivatives	**(14)**	9
Portfolio interest received	**3**	11
Portfolio dividends received	**35**	29
Portfolio fees paid	**(1)**	(1)
Carried interest and performance fees received	**1**	2
Carried interest and performance fees paid	**–**	(11)
Acquisition related earn-out charges paid	**(22)**	–
Operating expenses	**–**	–
Income taxes (paid)/received	**(1)**	1
Net cash flow from operating activities	**394**	380
Cash flow from financing activities		
Dividend paid	**(190)**	(183)
Issue of shares	**–**	3
Repurchase of B shares	**–**	(6)
Interest received	**3**	3
Interest paid	**(51)**	(54)
Net cash flow from financing activities	**(238)**	(237)
Cash flow from investing activities		
Net cash flow from deposits	**(40)**	–
Net cash flow from investing activities	**(40)**	–
Change in cash and cash equivalents	**116**	143
Cash and cash equivalents at the start of year	**735**	604
Effect of exchange rate fluctuations	**6**	(12)
Cash and cash equivalents at the end of year	**857**	735

1 Restated. See Note 31 of the financial statements.

Financial statements

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 2016 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 key accounting policies are disclosed below, but where possible, accounting policies 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
IFRS	Annual improvements 2012 to 2014	1 January 2016
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.

B Basis of preparation

The financial statements are prepared on a going concern basis as disclosed in the Directors' report.

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 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.

Investment managers/advisers which also hold investments – Consolidated
These entities provide investment related services through the provision of investment management or advice and also hold investments in managed assets, typically due to regulatory reasons or investor expectations. The primary purpose of these entities is to provide investment related services and therefore they are not classified as investment entities.

Holding companies of investment managers/advisers – Consolidated
These entities provide investment related services through their subsidiaries. They do not hold any direct investment in portfolio assets and these entities are not investment entities.

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 has been altered to take wider factors of control as well as actual equity ownership into account. At 31 March 2016, the Group had 26 investments which were classified as accounting subsidiaries. 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. With one exception (Palace Street I Limited) none of these subsidiaries are UK Companies Act subsidiaries.

Structured entities – Fair valued
The Group has interests in a number of unconsolidated structured entities, their current carrying value and a description of their activities is included in Note 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 fair valuation of the investment and the assessment regarding investment entities. 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. Note 12 provides further detail on the fair value of the investment portfolio, including sensitivities to inputs in level 3 valuations. The Group's valuation policy is set out on pages 148 and 149.

Further detail on the assessment as an investment entity is as follows:

(a) 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 on pages 48 to 52.

Significant accounting policies

(b) 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 loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.

ii. Unrealised profits or losses on the revaluation of investments are the movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.

iii. Fair value movements on investment entity subsidiaries are the movements in the carrying value of Group subsidiaries which are classified as investment entities under IFRS 10. The Group makes investments in portfolio assets through these entities which are usually limited partnerships or corporate subsidiaries.

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 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. £31 million was received in the year (2015: £16 million).

   – Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value. Income received on the instruments in the most junior level of CLO capital is recognised as a dividend as detailed above. £31 million was received in the year (2015: £16 million).

   – 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 balance sheets 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. During the year, a £14 million loss (2015: £12 million gain) was recognised in exchange movements in relation to forward foreign exchange contracts.

(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 two bases throughout the year. Firstly, as business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. Secondly, he considers separate Proprietary Capital and Fund Management businesses focused on investment returns and Fund Management profits respectively. 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 Investment basis which is the basis used by the Chief Executive to monitor the performance of the Group. The remaining Notes are prepared on the IFRS basis.

Year to 31 March 2016	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Realised profits over value on the disposal of investments	69	3	–	72	72	–	72
Unrealised profits/(losses) on the revaluation of investments	690	22	(43)	669	669	–	669
Portfolio income							
Dividends	18	21	32	71	71	–	71
Income from loans and receivables	59	–	4	63	63	–	63
Fees receivable/(payable)	7	–	(1)	6	6	–	6
Foreign exchange on investments	168	1	19	188	188	–	188
Gross investment return	**1,011**	**47**	**11**	**1,069**	**1,069**	**–**	**1,069**
Fees receivable from external funds	13	28	38	79	–	79	79
Synthetic fees	–	–	–	–	(44)	44	–
Operating expenses[1]	(66)	(29)	(39)	(134)	(31)	(103)	(134)
Interest receivable				4	4	–	4
Interest payable				(47)	(47)	–	(47)
Exchange movements				(31)	(31)	–	(31)
Operating profit before carry				**940**	**920**	**20**	**940**
Carried interest							
Carried interest and performance fees receivable	58	20	5	83			83
Carried interest and performance fees payable	(171)	(15)	(2)	(188)			(188)
Acquisition related earn-out charges	–	–	(5)	(5)			(5)
Operating profit				**830**			**830**
Income taxes				–			–
Other comprehensive income							
Re-measurements of defined benefit plans				(6)			(6)
Total return				**824**			**824**
Net divestment/(investment)							
Realisations[2]	743	51	2	796	796		796
Cash investment[3]	(365)	–	(88)	(453)	(453)		(453)
	378	51	(86)	343	343		343
Balance sheet							
Opening portfolio value at 1 April 2015	3,148	553	176	3,877	3,877		3,877
Investment[4]	464	–	88	552	552		552
Value disposed	(674)	(48)	(2)	(724)	(724)		(724)
Unrealised value movement	690	22	(43)	669	669		669
Other movement[5]	113	–	10	123	123		123
Closing portfolio value at 31 March 2016	**3,741**	**527**	**229**	**4,497**	**4,497**		**4,497**

1 Includes restructuring costs of £5 million, nil and nil for Private Equity, Infrastructure and Debt Management, respectively, and nil and £5 million for Proprietary Capital and Fund Management, respectively.

2 £25 million in Private Equity relates to proceeds held back in the holding company of the investee company.

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

4 Includes capitalised interest and other non-cash investment.

5 Other relates to foreign exchange and the provisioning of capitalised interest. In Debt Management, £9 million relates to capital withdrawn from the Palace Street I portfolio.

Financial statements

Notes to the accounts

1 Segmental analysis continued

Year to 31 March 2015	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Realised profits over value on the disposal of investments	161	1	–	162	162	–	162
Unrealised profits/(losses) on the revaluation of investments	641	68	(25)	684	684	–	684
Portfolio income							
Dividends	9	20	16	45	45	–	45
Income from loans and receivables	56	–	6	62	62	–	62
Fees receivable/(payable)	8	(1)	(1)	6	6	–	6
Foreign exchange on investments	(156)	8	(6)	(154)	(154)	–	(154)
Gross investment return	719	96	(10)	805	805	–	805
Fees receivable from external funds	16	30	34	80	–	80	80
Synthetic fees	–	–	–	–	(45)	45	–
Operating expenses[1]	(66)	(31)	(34)	(131)	(32)	(99)	(131)
Interest receivable				3	3	–	3
Interest payable				(49)	(49)	–	(49)
Movement in the fair value of derivatives				(1)	(1)	–	(1)
Exchange movements				40	40	–	40
Operating profit before carry				747	721	26	747
Carried interest							
Carried interest and performance fees receivable	28	45	7	80			80
Carried interest and performance fees payable	(103)	(35)	(4)	(142)			(142)
Acquisition related earn-out charges	–	–	(8)	(8)			(8)
Operating profit				677			677
Income taxes				(4)			(4)
Other comprehensive income							
Re-measurements of defined benefit plans				(14)			(14)
Total return				659			659
Net divestment/(investment)							
Realisations	831	10	–	841	841		841
Cash investment	(369)	–	(105)	(474)	(474)		(474)
	462	10	(105)	367	367		367
Balance sheet							
Opening portfolio value at 1 April 2014	2,935	487	143	3,565	3,565		3,565
Investment[2]	509	–	105	614	614		614
Value disposed	(670)	(9)	–	(679)	(679)		(679)
Unrealised value movement	641	68	(25)	684	684		684
Other movement[3]	(267)	7	(47)	(307)	(307)		(307)
Closing portfolio value at 31 March 2015	**3,148**	**553**	**176**	**3,877**	**3,877**		**3,877**

1 Includes restructuring costs of nil, nil and £1 million for Private Equity, Infrastructure and Debt Management, respectively, and nil and £1 million for Proprietary Capital and Fund Management, respectively.

2 Includes capitalised interest and other non-cash investment.

3 Other relates to foreign exchange and the provisioning of capitalised interest. In Debt Management, £41 million relates to capital withdrawn from the Palace Street I portfolio.

1 Segmental analysis continued

Year to 31 March 2016	**UK £m**	**Northern Europe £m**	**North America £m**	**Rest of World £m**	**Total £m**
Gross investment return					
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**
	80	**997**	**(23)**	**15**	**1,069**
Net divestment/(investment)					
Realisations	**62**	**586**	**96**	**52**	**796**
Cash Investment	**(121)**	**(272)**	**(60)**	**–**	**(453)**
	(59)	**314**	**36**	**52**	**343**
Balance sheet					
Closing portfolio value at 31 March 2016	**1,240**	**2,498**	**385**	**374**	**4,497**

Year to 31 March 2015	UK £m	Northern Europe £m	North America £m	Rest of World £m	Total £m
Gross investment return					
Realised profits over value on the disposal of investments	2	117	29	14	162
Unrealised profits/(losses) on the revaluation of investments	106	526	39	13	684
Portfolio income	56	41	13	3	113
Foreign exchange on investments	(2)	(208)	47	9	(154)
	162	476	128	39	805
Net divestment/(investment)					
Realisations	70	518	161	92	841
Cash Investment	(109)	(186)	(179)	–	(474)
	(39)	332	(18)	92	367
Balance sheet					
Closing portfolio value at 31 March 2015	1,148	1,859	457	413	3,877

2 Realised profits over value on the disposal of investments

	2016 Unquoted investments £m	**2016 Quoted investments £m**	**2016 Total £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**

	2015 Unquoted investments £m	2015 Quoted investments £m	2015 Total £m
Realisations	155	115	270
Valuation of disposed investments	(136)	(80)	(216)
	19	35	54
Of which:			
– profits recognised on realisations	21	35	56
– losses recognised on realisations	(2)	–	(2)
	19	35	54

Financial statements

Notes to the accounts

3 Unrealised profits on the revaluation of investments

	2016 Unquoted investments £m	2016 Quoted investments £m	2016 Total £m
Movement in the fair value of investments	**72**	**20**	**92**
Of which:			
– unrealised gains	**155**	**20**	**175**
– unrealised losses	**(83)**	**–**	**(83)**
	72	**20**	**92**

	2015 Unquoted investments £m	2015 Quoted investments £m	2015 Total £m
Movement in the fair value of investments	117	119	236
Of which:			
– unrealised gains	193	119	312
– unrealised losses	(76)	–	(76)
	117	119	236

4 Operating expenses

Operating expenses of £132 million (2015: £122 million) recognised in the IFRS Consolidated statement of comprehensive income include the following amounts:

	2016 £m	2015 £m
Depreciation of property, plant and equipment	**1**	2
Amortisation of fund management contracts	**7**	6
Audit fees	**2**	2
Staff costs (Note 5)	**83**	85
Restructuring and redundancy costs	**5**	1

Expenses incurred in the entities accounted for as investment entity subsidiaries were £2 million (2015: £9 million). Total operating expenses were £134 million (2015: £131 million) under the Investment basis.

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.

	2016 £m	2015 £m
Wages and salaries	**61**	56
Social security costs	**10**	11
Share-based payment costs (Note 27)	**8**	15
Pension costs	**4**	3
	83	85

Under both IFRS and the Investment basis, the average number of employees during the year was 276 (2015: 271).

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

	2016 £m	2015 £m
Fixed staff costs	**41**	39
Variable staff costs	**42**	46
	83	85

More detail on this information is included in the Directors' remuneration report on page 82.

6 Information regarding the Group's auditors

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.

		2016 £m	2015 £m
Audit services			
Statutory audit	– Company	**1.2**	1.2
	– UK subsidiaries	**0.5**	0.6
	– Overseas subsidiaries	**0.3**	0.2
		2.0	2.0
Non-audit services			
Other assurance services		**0.1**	0.5
Investment due diligence		**1.3**	0.2
Tax services (compliance and advisory services)		**0.1**	0.3
		3.5	3.0

Non-audit services

In addition to the above, Ernst & Young LLP has received fees from investee companies. It is estimated that Ernst & Young LLP received less than 20% (2015: less than 20%) of the total investment-related fees paid to the four largest accounting firms.

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 Statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the Statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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 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 18% 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.

	2016 £m	2015 £m
Current taxes		
Current year	**3**	3
Deferred taxes		
Deferred income taxes	**(1)**	(1)
Total income tax charge in the Consolidated statement of comprehensive income	**2**	2

Notes to the accounts

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% (2015: 21%), and the differences are explained below:

	2016 £m	2015 £m
Profit before tax	**819**	702
Profit before tax multiplied by rate of corporation tax in the UK of 20% (2015: 21%)	**164**	147
Effects of:		
Non-taxable capital profits due to UK approved investment trust company status	**(163)**	(145)
	1	2
Other differences between accounting and tax profits:		
Non-taxable dividend income	**(5)**	(6)
Permanent differences – non-deductible items	**4**	6
Timing differences – deferred tax charges/(credits)	**2**	(3)
Overseas countries taxes	**2**	2
Excess unutilised tax losses arising in the period	**(2)**	1
Total income tax charge in the Consolidated statement of comprehensive income	**2**	2

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. Approved investment trust companies are used as investment fund vehicles. The tax exemption for capital profits which they benefit from allows them to ensure that investors do not ultimately suffer double taxation of their investment returns, ie once at the level of the investment fund vehicle and then again in the hands of the investors.

Including £2 million of tax credits (2015: £2 million tax charge) incurred in fair valued entities, the total tax charge for the Group was nil (2015: £4 million) under the Investment basis.

Deferred income taxes

	2016 £m	2015 £m
Opening deferred income tax asset		
Tax losses	**7**	12
Income in accounts taxable in the future	**(7)**	(12)
Other	**2**	1
	2	1
Recognised through Statement of comprehensive income		
Tax losses utilised	**–**	(5)
Income in accounts taxable in the future	**–**	5
Other	**1**	1
	1	1
Closing deferred income tax asset		
Tax losses	**7**	7
Income in accounts taxable in the future	**(7)**	(7)
Other	**3**	2
	3	2

At 31 March 2016, the Group had carried forward tax losses of £1,375 million (2015: £1,409 million), capital losses of £88 million (2015: £98 million) and other temporary differences of £69 million (2015: £12 million). It is uncertain that the Group will generate sufficient taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 19% (2015: 20%).

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	2016	2015
Earnings per share (pence)		
Basic	**85.6**	73.9
Diluted	**85.2**	72.9
Earnings (£m)		
Profit for the year attributable to equity holders of the Company	**817**	700

As at 31 March	2016	2015
Weighted average number of shares in issue		
Ordinary shares	**972,569,633**	972,141,887
Own shares	**(18,427,460)**	(24,825,193)
	954,142,173	947,316,694
Effect of dilutive potential ordinary shares		
Share options and awards	**4,735,616**	12,293,543
Diluted shares	**958,877,789**	959,610,237

As at 31 March	2016	2015
Net assets per share (£)		
Basic	**4.66**	4.01
Diluted	**4.63**	3.96
Net assets (£m)		
Net assets attributable to equity holders of the Company	**4,455**	3,806

Basic NAV per share is calculated on 956,417,466 shares in issue at 31 March 2016 (2015: 948,610,924). Diluted NAV per share is calculated on diluted shares of 961,323,047 at 31 March 2016 (2015: 961,432,940).

9 Dividends

	2016 pence per share	2016 £m	2015 pence per share	2015 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	**14.0**	**133**	13.3	126
Interim dividend	**6.0**	**57**	6.0	57
	20.0	**190**	19.3	183
Proposed final dividend	**16.0**	**153**	14.0	133

In FY2016, the Group's dividend policy is to distribute to shareholders between 15% and 20% of gross cash realisation proceeds, provided that gearing is less than 20% and gross debt is, or is scheduled to be below £1 billion. The policy is designed to give shareholders a direct share in the Group's realisation activities, while retaining sufficient funds within the Group to make new investments, meet liabilities as they fall due and meet internally set liquidity requirements. When determining the level of realisations to be paid as a dividend each year, the Board considers current and expected cash investment along with any significant actual or expected cash flows.

The distribution policy covers the Group's total annual dividend, which is split between a base dividend (8.1 pence per share) and an additional dividend (2016: 13.9 pence per share). 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.

Financial statements

Notes to the accounts

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 3i Group's valuation policies.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted investments, including both equity and loans are designated at fair value through profit and loss and are subsequently carried in the 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 148 and 149.

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 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 (restated) £m
Opening book value	**1,671**	1,582	**1,416**	1,408
Additions	**164**	203	**95**	109
– of which loan notes with nil value	**(13)**	(48)	**(13)**	(48)
Disposals, repayments and write-offs	**(225)**	(216)	**(224)**	(197)
Fair value movement[1]	**92**	236	**119**	208
Other movements and net cash returned	**(149)**	(86)	**7**	(64)
Closing book value	**1,540**	1,671	**1,400**	1,416
Quoted investments	**297**	399	**297**	334
Unquoted investments	**1,243**	1,272	**1,103**	1,082
Closing book value	**1,540**	1,671	**1,400**	1,416

1 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 include £35 million (2015: £69 million) in interest received by way of loan notes, of which £13 million (2015: £48 million) has been valued to nil, as well as cash advanced to Debt Management warehouses. Included within the Consolidated statement of comprehensive income is £26 million (2015: £38 million) of interest income, which reflects the net additions after write downs noted above, £5 million (2015: £14 million) of cash income and the capitalisation of accrued income and non-capitalised accrued income is £(1) million (2015: £3 million).

Other movements include the effects of foreign exchange and conversions from one instrument into another, including £38 million which relates to cash returned (2015: £18 million cash returned) from Debt Management warehouses.

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. In 2015 an adjustment of £142 million was made to reflect the carried interest payable attributable to the value of investments held by the entities but not accounted for within their net asset value. This adjustment is no longer required as the underlying entities, being qualifying limited partnerships, have now adopted IFRS and account for the relevant carried interest payable within their net asset value. Carried interest is described further in Note 13.

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 2016.

Non-current	**Group 2016 £m**	Group 2015 £m
Opening book value	**2,079**	1,909
Net cash flow from investment entities	**(206)**	(272)
Fair value movements on investment entity subsidiaries	**591**	530
Transfer of assets to/(from) investment entity subsidiaries	**216**	(88)
Closing book value	**2,680**	2,079

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 £134 million (2015: £104 million).

Restrictions

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no significant restrictions on the ability to transfer funds from these subsidiaries to the Group.

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 to its subsidiaries are disclosed in Note 24.

Financial statements

Notes to the accounts

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 2016 Designated at fair value through profit and loss £m	Group 2016 Other financial instruments at amortised cost £m	Group 2016 Total £m	Group 2015 Designated at fair value through profit and loss £m	Group 2015 Other financial instruments at amortised cost £m	Group 2015 Total £m
Assets						
Quoted investments	297	–	297	399	–	399
Unquoted investments	1,243	–	1,243	1,272	–	1,272
Investments in investment entities	2,680	–	2,680	2,079	–	2,079
Other financial assets	117	68	185	88	54	142
Total	4,337	68	4,405	3,838	54	3,892
Liabilities						
Loans and borrowings	–	837	837	–	815	815
Other financial liabilities	105	127	232	85	179	264
Total	105	964	1,069	85	994	1,079

At 31 March	Company 2016 Designated at fair value through profit and loss £m	Company 2016 Other financial instruments at amortised cost £m	Company 2016 Total £m	Company 2015 Designated at fair value through profit and loss (restated) £m	Company 2015 Other financial instruments at amortised cost (restated) £m	Company 2015 Total (restated) £m
Assets						
Quoted investments	297	–	297	334	–	334
Unquoted investments	1,103	–	1,103	1,082	–	1,082
Other financial assets	87	26	113	33	17	50
Total	1,487	26	1,513	1,449	17	1,466
Liabilities						
Loans and borrowings	–	837	837	–	815	815
Other financial liabilities	1	418	419	2	340	342
Total	1	1,255	1,256	2	1,155	1,157

3i enters into warehouse arrangements to support the creation of debt portfolios ahead of future CLO launches and has designated these financial instruments at fair value. At 31 March 2016, 3i has invested £17 million (2015: £43 million) in to these warehouses and the balance is included within the Group's unquoted investments. For the Company, £17 million is included within the unquoted investments.

Details of the commitments and contingent liabilities in relation to these warehouses can be found in Notes 24 and 25.

12 Fair values of assets and liabilities continued

(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 £967 million (2015: £997 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £837 million (2015: £815 million).

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)	
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 148 and 149.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2016:

	Group 2016 Level 1 £m	**Group 2016 Level 2 £m**	**Group 2016 Level 3 £m**	**Group 2016 Total £m**	Group 2015 Level 1 £m	Group 2015 Level 2 £m	Group 2015 Level 3 £m	Group 2015 Total £m
Assets								
Quoted investments	**297**	**–**	**–**	**297**	399	–	–	399
Unquoted investments	**–**	**–**	**1,243**	**1,243**	–	–	1,272	1,272
Total	**297**	**–**	**1,243**	**1,540**	399	–	1,272	1,671

At the Company level, the disclosures remain the same, with the exception of unquoted investments. Unquoted investments in the Company of £1,103 million (2015: £1,082 million) are valued at Level 3 in the fair value hierarchy. This disclosure only refers to the directly held investment portfolio. The fair value hierarchy also applies to Investments in investment entities, see Note 11 for details.

Investments in investment entities are fair valued at the entity's net asset value, with the most significant component being the underlying investment portfolio. The underlying portfolio is valued under the same methodology as directly held investments, with any other assets or liabilities within investment entities 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.

Financial statements

Notes to the accounts

12 Fair values of assets and liabilities continued

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

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 (restated) £m
Opening book value	**1,272**	1,324	**1,082**	1,166
Additions	**164**	201	**95**	107
– of which loan notes with nil value	**(13)**	(48)	**(13)**	(48)
Disposals, repayments and write-offs	**(166)**	(136)	**(165)**	(136)
Fair value movement[1]	**72**	117	**98**	117
Transfer of investment Level 3 to Level 1	**–**	(112)	**–**	(70)
Other movements	**(86)**	(74)	**6**	(54)
Closing book value	**1,243**	1,272	**1,103**	1,082

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

Other movements include the effects of foreign exchange and conversions from one instrument into another, including £38 million which relates to cash returned (2015: £18 million cash returned) from Debt Management warehouses.

Unquoted investments valued using Level 3 inputs also had the following impact on the Statement of comprehensive income: realised profits over value on disposal of investment of £10 million (2015: £19 million), dividend income of £46 million (2015: £23 million) and foreign exchange gains of £40 million (2015: £52 million losses).

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 2016, classified as Level 3, 28% (2015: 44%) were valued using a multiple of earnings and the remaining 72% (2015: 56%) were valued using alternative valuation methodologies.

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. The value weighted average earnings multiple used when valuing the portfolio was 9.83x (2015: 9.68x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2016 decreased by 5%, the investment portfolio would decrease by £19 million (2015: £35 million) or 1% (2015: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a negative impact of £173 million (2015: £121 million) or 6% (2015: 5%).

If the multiple increased by 5% then the investment portfolio would increase by £19 million (2015: £33 million) or 1% (2015: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a positive impact of £172 million (2015: £122 million) or 6% (2015: 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. Each methodology is used for a proportion of assets, by value and at year end the following techniques were used: 30% DCF (2015: 21%), 11% Imminent sale (2015: 7%), 10% Industry metric (2015: 10%), 18% broker quotes (2015: 13%) and 3% other (2015: 5%). 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 £45 million (2015: £35 million) or 3% (2015: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have an impact of £9 million (2015: £6 million) or 0.3% (2015: 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, Infrastructure and Debt Management funds and is measured at fair value. 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 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 successful investments. "Carried interest and performance fees payable" is the term used for amounts payable to executives on investment-related transactions and is measured at fair value.

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 plans 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 2016, an additional £299 million of carried interest payable was recognised in the Statement of financial position of these investment entity subsidiaries (2015: £142 million). As detailed in Note 11, the net assets of the Investment Entity subsidiaries were adjusted to reflect £142 million of carry payable in FY2015. No such adjustment was required in FY2016.

	Group 2016 £m	Group 2015 £m
Opening carried interest and performance fees receivable	**88**	17
Carried interest and performance fees receivable recognised in the Consolidated statement of comprehensive income during the year	**78**	80
Cash received in the year	**(52)**	(6)
Other movements	**3**	(3)
Closing carried interest and performance fees receivable	**117**	88
Of which: receivable in greater than one year	**89**	43

	Group 2016 £m	Group 2015 £m
Opening carried interest and performance fees payable	**85**	36
Carried interest and performance fees payable recognised in the Consolidated statement of comprehensive income during the year[1]	**31**	68
Cash paid in the year	**(13)**	(14)
Other movements	**2**	(5)
Closing carried interest and performance fees payable	**105**	85
Of which: payable in greater than one year	**85**	72

1 The carry payable charge in the table above does not include £9 million (2015: £4 million) associated with the share-based payment charge arising from related carry schemes. The total carried interest and performance fee payable recognised in the Statement of comprehensive income is £40 million (2015: £72 million). See Note 27 "Share-based payments" for further details.

Financial statements

Notes to the accounts

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 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.

Fund management contracts	Group 2016 £m	Group 2015 £m
Opening cost	33	33
Closing cost	33	33
Opening accumulated amortisation	23	17
Charge for the year	7	6
Closing accumulated amortisation	30	23
Net book amount	**3**	10

Goodwill	Group 2016 £m	Group 2015 £m
Opening value	9	9
Closing value	**9**	9
Total	**12**	19

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 Statement of comprehensive income.

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 (restated) £m
Prepayments	2	4	–	–
Other debtors	66	50	22	13
Amounts due from subsidiaries	–	–	4	4
Total other assets	**68**	54	**26**	17
Of which: receivable in greater than one year	**37**	21	**17**	5

At 31 March 2016, there were no amounts due that were past due or impaired (2015: nil) for Group or 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 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Loans and borrowings are repayable as follows:				
Within one year	**262**	–	**262**	–
In the second year	**–**	240	**–**	240
In the third year	**–**	–	**–**	–
In the fourth year	**–**	–	**–**	–
In the fifth year	**–**	–	**–**	–
After five years	**575**	575	**575**	575
	837	815	**837**	815

Principal borrowings include:

	Rate	Maturity	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Issued under the £2,000 million note issuance programme						
Fixed rate						
€350 million notes (public issue)	5.625%	2017	**262**	240	**262**	240
£200 million notes (public issue)	6.875%	2023	**200**	200	**200**	200
£400 million notes (public issue)	5.750%	2032	**375**	375	**375**	375
			837	815	**837**	815
Committed multi-currency facilities						
£350 million	LIBOR+0.60%	2020	**–**	–	**–**	–
			–	–	**–**	–
Total loans and borrowings			**837**	815	**837**	815

During the year, the maturity of the Company's £350 million syndicated multi-currency facility was extended by one year to September 2020. The Company has the option to request a further one-year extension at the second year anniversary of the facility, which may be granted at the discretion of each lender individually. The £350 million facility has no financial covenants.

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 £967 million (2015: £997 million), determined with reference to their published market prices. The loans and borrowings are included in Level 1 of the fair value hierarchy.

Under AIFMD, the Group is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with AIFMD, leverage is 116% (2015: 117%) under the gross method and 116% (2015: 120%) under the commitment method.

Financial statements

Notes to the accounts

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 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)
Closing balance	2	5	1	8

	Group 2015 Property £m	Group 2015 Redundancy £m	Group 2015 Restructuring £m	Group 2015 Total £m
Opening balance	6	4	3	13
Charge for the year	–	–	1	1
Utilised in the year	(2)	(3)	(1)	(6)
Closing balance	4	1	3	8

The provision for redundancy relates to staff reductions announced prior to 31 March 2016. 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 four years.

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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 (restated) £m
Amounts due to subsidiaries	–	–	408	305
Trade and other payables	126	152	9	14
Total trade and other payables	126	152	417	319
Of which: payable in greater than one year	27	25	–	–

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	2016 Number	2016 £m	2015 Number	2015 £m
Ordinary shares of 73 19/22p				
Opening balance	**972,453,819**	**719**	971,803,122	718
Issued on exercise of share options and under employee share plans	**207,625**	**–**	650,697	1
Closing balance	**972,661,444**	**719**	972,453,819	719

During the year to 31 March 2016 the Company issued 53,035 ordinary shares for total cash consideration of £220,806 on the exercise of executive share options for a price of 416.34 pence per share (being the market prices at the dates of grant in 2004 and 2005 of the options, adjusted to reflect returns of capital and additional dividends). The Company issued 154,590 ordinary shares to the Trustee of the 3i Group Share Incentive Plan for a total cash consideration of £762,225 at various prices from 432.97 pence to 556.33 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 £153,359.

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.

	2016 £m	2015 £m
Opening cost	**79**	89
Awards granted and exercised	**(25)**	(10)
Closing cost	**54**	79

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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 (restated) £m
Cash and deposits	**997**	861	**897**	735
Borrowings and derivative financial liabilities	**(837)**	(815)	**(837)**	(815)
Net cash/(debt)[1]	**160**	46	**60**	(80)
Total equity	**4,455**	3,806	**4,002**	3,444
Gearing (net debt/total equity)	**nil**	nil	**nil**	2%

1 The above numbers have been prepared under IFRS and differ from the Investment basis as detailed in the Strategic report.

Notes to the accounts

21 Capital structure continued

Capital constraints

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints have been identified 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**.

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. As an investment entity, these subsidiaries are all held at fair value in the Company's accounts. The net assets of these entities are deemed to represent fair value. This accounting policy was updated in 2016; see Note 31 for further details.

	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**
Closing book value	**1,240**	**1,608**	**2,848**

	Company 2015 Equity investments (restated)[1] £m	Company 2015 Loans and receivables (restated)[1] £m	Company 2015 Total (restated)[1] £m
Opening book value	780	1,354	2,134
Additions	30	429	459
Share of profits	–	255	255
Disposals and repayments	(52)	(601)	(653)
Fair value movements	193	71	264
Exchange movements	–	(58)	(58)
Closing book value	951	1,450	2,401

1 Restated. See Note 31.

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.

Leases as lessee

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Less than one year	7	7	–	–
Between one and five years	19	20	–	–
More than five years	15	17	–	–
	41	44	–	–

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2016, £5 million (2015: £5 million) was recognised as an expense in the Consolidated statement of comprehensive income in respect of operating leases. There was no impact (2015: 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 £4 million (2015: £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 on the Group's financial results for the year.

	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	Group 2015 due within 1 year £m	Group 2015 due between 2 and 5 years £m	Group 2015 due over 5 years £m	Group 2015 Total £m
Equity and loan investments	90	–	–	90	68	–	–	68

	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	Company 2015 due within 1 year £m	Company 2015 due between 2 and 5 years £m	Company 2015 due over 5 years £m	Company 2015 Total £m
Equity and loan investments	68	–	–	68	24	–	–	24

The amounts shown above include commitments made by the Group and Company of £65 million (2015: £33 million) and £65 million (2015: £15 million) respectively, to create warehouse facilities to support the creation of senior secured debt portfolios ahead of future CLO fund launches. They also include a commitment made by the Group to invest £22 million (2015: nil) in a new CLO fund upon launch. These commitments are due within one year.

Further details on these warehouses are detailed in Notes 12 and 25.

For commitments to Private Equity and Infrastructure funds managed and advised by the Group refer to pages 22 and 24, respectively.

Operating lease commitments are detailed in Note 23.

Financial statements

Notes to the accounts

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 Statement of financial position.

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	–	14	–	14

The contingent liability at 31 March 2015 related to an investee company that was sold during the current financial year. The contingent liability was eliminated on the date of disposal.

Other contingent liabilities

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 2016 was £187 million (2015: £193 million).

3i has entered into warehouse arrangements in Europe and the US to support the creation of senior secured debt portfolios ahead of future CLO fund launches. Whilst in the warehouse phase negative mark to market movements may trigger a margin call, at which point 3i is required to post additional capital or close the facility and crystallise market losses. The maximum additional capital that could be required based on the amount invested at 31 March 2016 is £17 million (2015: £15 million) and further detail can be found in Note 29.

At 31 March 2016, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

26 Retirement benefits

Accounting policy:

Payments to defined contribution retirement benefit plans are charged to the Statement of comprehensive income as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Interest on the net defined benefit liability/asset, calculated using the discount rate used to measure the defined benefit obligation, is recognised in the 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 (2015: £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.

26 Retirement benefits continued

(ii) Defined benefit plans

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK ("the Plan"). The Plan is approved by HMRC for tax purposes and is operated separately from the Group and managed by an independent set of Trustees, whose appointment is determined by the Plan's documentation. The Plan is subject to UK funding regulations, which require the Group and the Trustees to agree a funding strategy and contribution schedule where necessary.

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 will be maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. The Trustees are responsible for managing and investing the Plan's assets and for monitoring the Plan's funding position. As the Plan is now closed to future accrual, measures have been taken to de-risk the Plan through changes to its investment policy.

The valuation of the Plan has been updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2016.

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 (2015: £1 million) and the future liability calculated by German and Spanish actuaries is £21 million (2015: £20 million). The amounts recognised in the Consolidated statement of financial position for the year and other comprehensive income for these schemes are a £1 million expense (2015: £1 million expense) and a £2 million gain (2015: £7 million expense), respectively.

The amount recognised in the Consolidated statement of financial position in respect of the Group's defined benefit plans is as follows:

	2016 £m	2015 £m
Present value of funded obligations	**789**	846
Fair value of the Plan assets	**(992)**	(1,055)
Asset restriction	**71**	73
Retirement benefit surplus in respect of the Plan	**(132)**	(136)
Retirement benefit deficit in respect of other defined benefit schemes	**20**	19

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:

	2016 £m	2015 £m
Included in interest payable		
Interest income on net defined benefit asset	**(3)**	(5)
Included in other comprehensive income		
Re-measurement loss	**12**	11
Asset restriction	**(4)**	(4)
Total re-measurement loss and asset restriction	**8**	7
Total	**5**	2

The re-measurement loss recognised in the financial statements is £6 million (2015: £14 million loss). The remaining balance relates to losses on our overseas schemes, as noted above.

Financial statements

Notes to the accounts

26 Retirement benefits continued

Changes in the present value of the defined benefit obligation were as follows:

	2016 £m	2015 £m
Opening defined benefit obligation	**846**	687
Interest on Plan liabilities	**27**	30
Re-measurement (gain)/loss:		
– loss/(gain) from change in demographic assumptions	**8**	(2)
– (gain)/loss from change in financial assumptions	**(16)**	157
– experience gains	**(5)**	(3)
Benefits paid	**(71)**	(23)
Closing defined benefit obligation	**789**	846

Changes in the fair value of the Plan assets were as follows:

	2016 £m	2015 £m
Opening fair value of the Plan assets	**1,055**	898
Interest on Plan assets	**32**	38
Actual return on Plan assets less interest on Plan assets	**(25)**	141
Employer contributions	**1**	1
Benefits paid	**(71)**	(23)
Closing fair value of the Plan assets	**992**	1,055

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:

	2016 £m	2015 £m
Equities	**204**	222
Corporate bonds	**174**	213
Gilts	**594**	610
Other	**20**	10
	992	1,055

The Plan's assets are all invested with Legal and General Investment Management in quoted and liquid funds.

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:

	2016 £m	2015 £m
Opening asset restriction	**73**	74
Interest on asset restriction	**2**	3
Re-measurements	**(4)**	(4)
Closing asset restriction	**71**	73

26 Retirement benefits continued

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows:

	2016	2015
Discount rate	**3.5%**	3.3%
Expected rate of salary increases	**5.7%**	5.6%
Expected rate of pension increases	**3.3%**	3.2%
Retail Price Index (RPI) inflation	**3.2%**	3.1%
Consumer Price Index (CPI) inflation	**2.2%**	2.1%

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 2016 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 20 years.

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2016 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 2015). The life expectancy of a male member reaching age 60 in 2036 (2015: 2035) is projected to be 33.6 (2015: 33.4) years compared to 31.3 (2015: 31.1) years for someone reaching 60 in 2016.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on retirement benefit surplus	
	Change in assumption	2016	2015
Discount rate	Decrease by 0.1%	**Decrease by £10 million**	Decrease by £12 million
Retail Price Index (RPI) inflation	Increase by 0.1%	**Decrease by £7 million**	Decrease by £11 million
Life expectancy	Increase by 1 year	**Decrease by £15 million**	Decrease by £16 million

The above sensitivity analysis is based on changing one assumption whilst all others remain constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Through its defined benefit plan the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	A fall in the value of the Plan's assets may reduce the value of the defined benefit surplus and could affect the future funding requirements. To reduce the volatility of the Plan's assets, the Trustees have implemented an investment strategy that reduces the Plan's equity holdings by switching them to bonds over time. The Plan's assets are also diversified across different asset classes.
Changes in bond yields	A decrease in corporate bond yields will increase the Plan's IAS 19 defined benefit obligation. However, the Plan holds a proportion of its assets in corporate bonds and so any increase in the defined benefit obligation would be partially offset by an increase in the value of the Plan's assets.
Inflation risk	The Plan's defined benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the Plan's assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation could reduce or eliminate the defined benefit surplus.
Life expectancy	The Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's defined benefit obligation.

As the Plan was closed to future accrual of benefits by members with effect from 5 April 2011, the Group ceased to make regular contributions to the Plan in the year to 31 March 2012. The Group does not intend to make contributions in the next year.

The triennial actuarial funding valuation as at 30 June 2013 was completed in March 2014. The results of that valuation showed that the Plan had an actuarial surplus of £1 million at 30 June 2013 and as a result the Group 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. It is expected that the next triennial actuarial funding valuation exercise will be based on the financial position of the Plan as at 30 June 2016.

During the year, the Group launched a programme to offer the Plan's members flexibility in how they take their pension benefits following the Government's "Freedom and choice in pensions" changes announced in April 2014. This included the provision of independent financial advice and a range of options for deferred and pensioner members.

Financial statements

Notes to the accounts

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 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 options 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 Statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash-settled share-based payment transactions are recognised in the Statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash-settled share-based payment transactions 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 Statement of comprehensive income is shown below:

	2016 £m	2015 £m
Share awards included as operating expenses[1,2]	**10**	15
Share awards included as carried interest[1]	**5**	4
Cash-settled share awards[3]	**4**	3
	19	22

1 Credited to equity.
2 For the year ended 31 March 2016, £8 million is shown in Note 5 (2015: £15 million) and is net of a £2 million release from the bonus accrual.
3 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 87 and 88. 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 2016 is £4 million (2015: £5 million).

For the share-based awards granted during the year, the weighted average fair value of those options at 31 March 2016 was 457 pence (2015: 323 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	564p	–	32%	3–4	–	1.01%
Black Scholes	542p	–	24%	3	3.6%	1.00%

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

Share-based awards have no exercise prices outstanding and the number of awards are as follows:

	2016 Number	2015 Number
Outstanding at the start of the year	**16,016,623**	17,454,763
Granted	**2,777,789**	2,483,913
Exercised	**(6,744,192)**	(3,141,620)
Lapsed	**(396,448)**	(780,433)
Outstanding at the end of year	**11,653,772**	16,016,623
Weighted average remaining contractual life of awards outstanding in years	**2.9**	4.5
Exercisable at the end of the year	**216,479**	186,481

The weighted average market price at the date of exercise was 545 pence (2015: 426 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 2016 was 16 million (2015: 24 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 456 pence (2015: 482 pence) was £74 million (2015: £115 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 27 to 35. 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. This is detailed in the Investment policy on page 63 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 25 large investments table on pages 146 and 147.

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 86% 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. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. 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 weekly 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 page 33 of the Risk section. The table on the next page analyses the maturity of the Group's gross contractual liabilities.

Financial statements

Notes to the accounts

28 Financial risk management continued

Financial liabilities (excluding foreign exchange contracts)

As at 31 March 2016	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
Gross commitments:					
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	–	–	–	99
Total	**433**	**36**	**108**	**861**	**1,438**

Gross commitments include principal amounts and interest and fees where relevant. Carried interest and performance fees payable greater than one year of £85 million (2015: £72 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.

As at 31 March 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
Gross commitments:					
Fixed loan notes	49	289	106	896	1,340
Committed multi-currency facility	1	1	2	–	4
Carried interest and performance fees payable within one year	13	–	–	–	13
Acquisition related earn-out charges payable	17	10	–	–	27
Trade and other payables	127	–	–	–	127
Total	207	300	108	896	1,511

Forward foreign exchange contracts

At 31 March 2016, there were no forward foreign exchange contracts in place (2015: Gross amount receivable and payable for foreign exchange contracts of £58 million; due within one year).

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 (2015: nil) and trade and other payables within one year is £417 million (restated 2015: £319 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

Interest rate risk has primarily been managed through a reduction in gross debt since 2012. The direct impact of a movement in interest rates is relatively small 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 (2015: £9 million increase) for the Group and £9 million income (2015: £8 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 debt management investments caused by interest rate fluctuations.

(ii) Currency risk

The Group's net assets in euro, US dollar, Swedish krona, 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 32.

As at 31 March 2016	**Sterling £m**	**Euro £m**	**US dollar £m**	**Swedish krona £m**	**Indian rupee £m**	**Other £m**	**Total £m**
Net assets	**1,364**	**2,169**	**726**	**106**	**53**	**37**	**4,455**
Sensitivity analysis							
Assuming a 10% movement in exchange rates against sterling:							
Impact on exchange movements in the Statement of comprehensive income	**n/a**	**193**	**68**	**9**	**4**	**3**	**277**
Impact on the translation of foreign operations in other comprehensive income	**n/a**	**5**	**(2)**	**1**	**1**	**–**	**5**
Total	**n/a**	**198**	**66**	**10**	**5**	**3**	**282**

As at 31 March 2015	Sterling £m	Euro £m	US dollar £m	Swedish krona £m	Indian rupee £m	Other £m	Total £m
Net assets	1,271	1,367	990	20	71	87	3,806
Sensitivity analysis							
Assuming a 10% movement in exchange rates against sterling:							
Impact on exchange movements in the Statement of comprehensive income	n/a	124	75	10	3	7	219
Impact on the translation of foreign operations in other comprehensive income	n/a	12	(7)	1	3	1	10
Total	n/a	136	68	11	6	8	229

(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 Statement of comprehensive income:

Group	Quoted investment £m	Unquoted investment £m	Total £m
At 31 March 2016	**45**	**186**	**231**
At 31 March 2015	60	191	251

Company	Quoted investment £m	Unquoted investment £m	Total £m
At 31 March 2016	**45**	**165**	**210**
At 31 March 2015 (restated)	50	162	212

Financial statements

Notes to the accounts

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:

Statement of comprehensive income	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Carried interest receivable	**53**	28	**53**	28
Fees receivable from external funds	**28**	31	**–**	–

Statement of financial position	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Carried interest receivable	**87**	33	**87**	33

In addition, the Group has invested in the 3i Global Income Fund. At 31 March 2016, the value of the investment was £52 million. The Group received management fees of less than £1 million in the year (2015: nil).

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. It is presumed 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:

Statement of comprehensive income	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 (restated) £m
Realised profit over value on the disposal of investments	**4**	13	**4**	1
Unrealised profits on the revaluation of investments	**(42)**	3	**(15)**	(14)
Portfolio income	**37**	26	**12**	17

Statement of financial position	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 (restated) £m
Unquoted investments	**480**	560	**341**	416

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:

Statement of comprehensive income	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Realised profit over value on the disposal of investments	**2**	–	**2**	–
Unrealised profits on the revaluation of investments	**20**	46	**20**	46
Fees receivable from external funds	**12**	12	**–**	–
Performance fees receivable	**20**	45	**–**	–
Dividends	**12**	12	**12**	12

Statement of financial position	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Quoted equity investments	**277**	288	**277**	288
Performance fees receivable	**20**	45	**–**	–

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 (2015: £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 £69 million (2015: £145 million) for this service.

Other subsidiaries

The Company borrows funds from, and lends funds to certain subsidiaries and pays and receives interest on the outstanding balances. The interest income that is included in the Company's Statement of comprehensive income is £1 million (2015: £1 million) and the interest expense included is nil (2015: nil). At 31 March 2016, there was no interest due to or from the Company (2015: nil).

Key management personnel

The Group's key management personnel comprise the members of the Executive Committee and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

Statement of comprehensive income	**Group 2016 £m**	Group 2015 £m
Salaries, fees, supplements and benefits in kind	**5**	5
Cash bonuses	**3**	4
Carried interest and performance fees payable	**21**	17
Share-based payments	**6**	5
Acquisition related earn-out charges	**1**	4

Statement of financial position	**Group 2016 £m**	Group 2015 £m
Bonuses and share-based payments	**16**	14
Carried interest and performance fees payable within one year	**12**	5
Carried interest and performance fees payable after one year	**33**	21
Acquisition related earn-out charges payable within one year	**–**	10
Acquisition related earn-out charges payable after one year	**–**	8

Carried interest paid in the year to key management personnel was £3 million (2015: £3 million). Acquisition related earn-out charges paid to key management personnel was £19 million (2015: £8 million).

Notes to the accounts

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, Infrastructure and Debt Management business lines. These structured entities fall into four categories, namely CLOs, debt management warehouses, closed end limited partnerships (Private Equity and Infrastructure funds) and investments in certain portfolio investments.

The nature, purpose and activities of these entities are detailed below along with the nature of risks associated with these entities and the maximum exposure to loss.

CLO structured entities

The Group manages CLO vehicles as part of its Debt Management business. These funds predominantly invest in senior secured loans and are financed by investors seeking credit rated, structured, investment returns.

The Group manages these funds in return for a management fee. The Group also typically invests into the equity tranche of these funds. The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and performance fees are accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

	Carrying amount			Maximum loss exposure
Balance sheet line item of asset or liability	Assets £m	Liabilities £m	Net £m	£m
Unquoted investments	154	–	154	154
Fee income receivable	7	–	7	7
Total	**161**	**–**	**161**	**161**

At 31 March 2015, the carrying amount of assets and maximum loss exposure of unquoted investments and fee income receivable was £119 million and £7 million respectively. The carrying amount of liabilities was nil.

At 31 March 2016, the total CLO assets under management were £7.1 billion (2015: £6.5 billion). The Group earned distributions of £31 million (2015: £16 million) and fee income of £33 million (2015: £30 million) during the year from CLO structured entities.

Warehouse structured entities

Ahead of future CLO fund launches, warehouse facilities are usually established to support the creation of senior secured debt portfolios. These entities are financed by the Group along with the bank appointed to operate the warehouse facility. The Group makes a commitment to the warehouse, typically taking the first loss position and is at risk for margin calls if the portfolio underperforms. The Group's attributable stakes in these warehouses are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

	Carrying amount			Maximum loss exposure
Balance sheet line item of asset or liability	Assets £m	Liabilities £m	Net £m	£m
Unquoted investments	17	–	17	17
Total	**17**	**–**	**17**	**17**

At 31 March 2015, the carrying amount of assets and the maximum loss exposure of unquoted investments was £43 million. The carrying amount of liabilities was nil.

The Group earned interest income of £4 million (2015: £6 million) during the year from warehouse structured entities.

Closed end limited partnerships

The Group manages a number of closed end limited partnerships, which are primarily Private Equity or Infrastructure focused, in return for a management fee. The purpose of these partnerships is to invest in Private Equity or Infrastructure investments for capital appreciation. Limited Partners, which in some cases may include the Group, finance these entities by committing capital to them and cash is drawn down or distributed for financing investment activity.

The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and carried interest is accrued when relevant performance hurdles are met.

29 Related parties and interests in other entities continued

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 Assets £m	Liabilities £m	Net £m	Maximum loss exposure £m
Carried interest receivable	87	–	87	87
Total	**87**	**–**	**87**	**87**

At 31 March 2015, the carrying amount of assets and the maximum loss exposure of carried interest receivable was £33 million. The carrying amount of liabilities was nil.

At 31 March 2016, the total assets under management relating to these entities was £2.0 billion (2015: £2.2 billion). The Group earned fee income of £28 million (2015: £31 million) and carried interest of £53 million (2015: £28 million) in the year.

Investments that are structured entities

The Group makes investments on behalf of itself and third-party funds that it manages, for capital appreciation purposes. In a small number of cases, these investments fall under the classification of a structured entity as they are funds managed by the General Partner under a limited partnership agreement.

The Group's attributable stakes in these entities are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount Assets £m	Liabilities £m	Net £m	Maximum loss exposure £m
Unquoted investments	2	–	2	2
Total	**2**	**–**	**2**	**2**

At 31 March 2015, the carrying amount of assets and the maximum loss exposure of unquoted investments was £2 million. The carrying amount of liabilities was nil.

At 31 March 2016, the total fair value of these investments, including stakes held by third parties was £28 million (2015: £33 million). The Group recognised an unrealised movement of nil (2015: £1 million loss) from investments that are structured entities.

Regulatory information relating to fees:

Under AIFMD, 3i Investments plc acts as an Alternative Investment Fund Manager ("AIFM") to 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 service.

Financial statements

Notes to the accounts

30 Subsidiaries and related undertakings

IFRS 10 has reduced the requirements for an entity to be classified as an accounting subsidiary and deems wider control, as opposed to equity ownership, as the key determinant when identifying accounting subsidiaries. Under IFRS 10, if the Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee, then it has control and hence the investee is deemed an accounting subsidiary. This is inconsistent with the UK Companies Act where voting rights are the key determinant when identifying accounting subsidiaries, with a larger than 50% holding of voting rights resulting in an entity being classified as a subsidiary.

In addition, under the application of IFRS 10, 30 of the portfolio investments are considered to be accounting subsidiaries. As per the investment entity exception under IFRS 10, these are all held at fair value with movements shown in the Statement of comprehensive income. The largest 25 portfolio companies by fair value are detailed on pages 146 and 147. The combination of the table below and that on pages 146 and 147 are deemed by the Directors to fulfil the IFRS 12 disclosure of material subsidiaries.

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings and this is set out below. 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 2016 are listed below.

Description	Country of incorporation or residence	Holding/share class
Subsidiaries		
3i Holdings plc	UK	100% ordinary shares
3i Investments plc	UK	100% ordinary shares
3i plc	UK	100% ordinary shares
3i International Holdings	UK	100% ordinary shares
Investors in Industry plc	UK	66.67% ordinary shares/ 33.33% cumulative preference shares
Mayflower GP Limited	UK	100% ordinary shares
3i Trustee Company Limited	UK	100% ordinary shares
3i Assets LLP	UK	100% partnership interest
3i General Partner Limited	UK	100% ordinary shares
3i General Partner No 1 Limited	UK	100% ordinary shares
3i Corporation	US	100% ordinary shares
3i Debt Management US LLC	US	100% ordinary shares
3i DM US (SLF) LP	US	100% partnership interest
3i Deutschland Gesellschaft für Industriebeteiligungen mbH	Germany	100% ordinary shares
Gardens Nominees Limited	UK	100% ordinary shares
Gardens Pension Trustees Limited	UK	100% ordinary shares
Waterloo Trustee Company Limited	UK	100% ordinary shares
Palace Street II Sarl	Luxembourg	100% ordinary shares
3i DM GIF 2015 GP Limited	UK	100% ordinary shares
I.C.F.C Computers Limited	UK	100% ordinary shares
3i Debt Management Limited	UK	100% ordinary shares
3i Debt Management Investments Limited	UK	100% ordinary shares
Palace Street I Limited	UK	100% ordinary shares
3i Europe General Partner Limited	UK	100% ordinary shares
3i Europe plc	UK	100% ordinary shares
3i Nominees Limited	UK	100% ordinary shares
3i 96 Partners Nominees Limited	UK	100% ordinary shares
3i Europartners II GP Limited	UK	100% ordinary shares
3i PVLP Nominees Limited	UK	100% ordinary shares
3i EF3 GPA Limited	UK	100% ordinary shares

30 Subsidiaries and related undertakings continued

Description	Country of incorporation or residence	Holding/share class
3i EF3 GPB Limited	UK	100% ordinary shares
3i Group Investments LP	UK	100% partnership interest
3i APTech Nominees Limited	UK	100% ordinary shares
3i APTech GP Limited	UK	100% ordinary shares
3i EF3 Nominees B Limited	UK	100% ordinary shares
3i EF3 Nominees A Limited	UK	100% ordinary shares
Mayflower LP	Jersey	100% partnership interest
3i Osprey GP Limited	UK	100% ordinary shares
3i Investments GP Limited	UK	100% ordinary shares
3i IIF GP Limited	Jersey	100% ordinary shares
3i Nordic plc	UK	100% ordinary shares
3i GP 2004 Limited	UK	100% ordinary shares
3i Networks Finland Limited	UK	100% ordinary shares
3i Ademas LP	UK	100% partnership interest
3i International Services plc	UK	100% ordinary shares
3i EFIV Nominees Limited	UK	100% ordinary shares
3i EFV Nominees A Limited	UK	100% ordinary shares
3i EFV Nominees B Limited	UK	100% ordinary shares
3i (Shanghai) Investment Holding Limited	Mauritius	72.85% ordinary shares
3i US Holdings LLC	US	100% ordinary shares
3i Technology Corporation	US	100% ordinary shares
3i India Private Limited	India	100% ordinary shares
3i Sports Media (Mauritius) Limited	Mauritius	88.50% ordinary shares
3i Asia Limited	Mauritius	100% ordinary shares
3i EFV GP Limited	UK	100% ordinary shares
3i EF4 GP Limited	UK	100% ordinary shares
3i srl	Italy	100% ordinary shares
3i Infraprojects (Mauritius) Limited	Mauritius	100% ordinary shares
3i Research (Mauritius) Limited	Mauritius	100% ordinary shares
Nordrhein-Westfahlen Fonds VC GmBH	Germany	100% ordinary shares
IIF SLP GP Limited	UK	100% ordinary shares
3i Buyouts 2010 A LP	UK	99.03% partnership interest
3i Buyouts 2010 B LP	UK	98.34% partnership interest
3i Buyouts 2010 C LP	UK	97.17% partnership interest
GP CCC 2010 Limited	UK	100% ordinary shares
3i GC GP Limited	UK	100% ordinary shares
3i GP 2010 Limited	UK	100% ordinary shares
3i Growth Capital A LP	UK	100% partnership interest
3i Growth Capital G LP	UK	100% partnership interest
3i Growth Capital (USA) D L.P.	Jersey	100% partnership interest
3i Growth 2010 LP	UK	85% partnership interest
3i Growth USA 2010 LP	Jersey	83.62% partnership interest
3i Growth Capital (USA) P L.P.	Jersey	100% partnership interest
3i GC Holdings Ref 2 sarl	Luxembourg	71.77% ordinary shares

Financial statements

Notes to the accounts

30 Subsidiaries and related undertakings continued

Description	Country of incorporation or residence	Holding/share class
3i GC Nominees A limited	UK	100% ordinary shares
3i GC Nominees B Limited	UK	100% ordinary shares
Ebrain 1 Limited	Jersey	100% ordinary shares
Ebrain 2 Limited	Jersey	100% ordinary shares
Ebrain 3 Limited	Jersey	100% ordinary shares
Strategic Investments FM (Mauritius) Alpha Limited	Mauritius	70.03% ordinary shares
3i India Infrastructure B LP	UK	100% partnership interest
3i Pan European Growth Capital 2005-06 LP	UK	80% partnership interest
3i Asia Pacific 2004-06 LP	UK	100% partnership interest
3i UK Private Equity 2004-06 LP	UK	80% partnership interest
3i Pan European Buyout 2004-06 LP	UK	78.80% partnership interest
3i 2004 GmbH & Co KG	Germany	100% partnership interest
3i General Partner 2004 GmbH	Germany	100% ordinary shares
Pan European Buyouts Co-invest 2006-08 LP	UK	100% partnership interest
Pan European Buyouts (Dutch) A Co-invest 2006-08 LP	UK	100% partnership interest
3i U.S. Growth Partners L.P.	Jersey	93.59% partnership interest
3i US Growth Corporation	USA	100% ordinary shares
Global Growth Co-invest 2006-08 LP	UK	100% partnership interest
Pan European Growth Co-invest 2006-08 LP	UK	100% partnership interest
Pan European Growth (Dutch) A Co-invest 2006-08 LP	UK	100% partnership interest
Asia Growth Co-invest 2006-08 LP	UK	100% partnership interest
3i GP 2006-08 Limited	UK	100% ordinary shares
Pan European Buyouts (Nordic) Co-invest 2006-08 LP	UK	100% partnership interest
Pan European Growth (Nordic) Co-invest 2006-08 LP	UK	100% partnership interest
3i Infocomm Limited	Hong Kong	75% ordinary shares
3i Buyouts 08-10 A LP	UK	99.67% partnership interest
3i Buyouts 08-10 B LP	UK	98.34% partnership interest
3i Buyouts 08-10 C LP	UK	96.74% partnership interest
3i Growth 08-10 LP	UK	98.67% partnership interest
GP CCC 08-10 Limited	UK	100% ordinary shares
3i GP 08-10 Limited	UK	100% ordinary shares
3i Growth (Europe) 08-10 LP	UK	98.67% partnership interest
3i PE 2013-16A LP	UK	100% partnership interest
3i PE 2013-16C LP	UK	100% partnership interest
3i GP 2013 Limited	UK	100% ordinary shares
GP 2013 Ltd	UK	100% ordinary shares
3i BIFM Investments Limited	UK	100% ordinary shares
BIIF GP Limited	UK	100% ordinary shares
BEIF II Limited	UK	100% ordinary shares
BAM General Partner Limited	UK	100% ordinary shares
3i BIIF GP LLP	UK	100% partnership interest
3i BEIF II GP LLP	UK	100% partnership interest

30 Subsidiaries and related undertakings continued

Description	Country of incorporation or residence	Holding/share class
Associates		
3i Growth Carry A LP	UK	25% partnership interest
3i Growth Carry B LP	UK	25% partnership interest
Strategic Investments FM (Mauritius) B Limited	Mauritius	36.42% ordinary shares
3i GC Holdings Ref 1 sarl	Luxembourg	36.42% ordinary shares
3i Growth Capital B LP	UK	36.42% partnership interest
3i Growth Capital E (USA) L.P.	Jersey	36.42% partnership interest
3i Infrastructure plc	Jersey	20% ordinary shares
ACR Capital Pte Limited	Singapore	24% ordinary shares
AES Engineering	UK	39% ordinary shares
Pearl (AP) Group Limited	UK	38% ordinary shares
Avlar Bioventures Limited	UK	24% ordinary shares
Carter Thermal Industries Limited	UK	34% ordinary shares
ESG Capital 1 Limited	UK	37% ordinary shares
Osby Intressenter AB	Sweden	33% ordinary shares
Jake Holdings Limited	UK	44% ordinary shares
MDY Healthcare	UK	27% ordinary shares
Orange County FIP	Brazil	39% ordinary shares
Permali Gloucester Limited	UK	32% ordinary shares
Scandferries Holdings UK Limited	UK	48% ordinary shares
Tato Holdings Limited	UK	27% ordinary shares
Sortifandus S.L.	Spain	43% ordinary shares
Joint ventures		
The Group has no interests in any joint ventures.		

Financial statements

Notes to the accounts

31 Company – Restatement of prior period information

During the year, the Company changed the accounting treatment for its Employee Share Option Trust ("ESOT") and reviewed the IFRS 10 accounting policy for its interests in Group entities and restated comparative information where relevant. These adjustments had no impact on the Group reported results.

Management reviewed the accounting for its ESOT and concluded that it would be better reflected as a branch of the Company rather than as an independent subsidiary. The impact of this change on the Company statement of financial position was to decrease interests in Group entities by £5 million (2015: £5 million, 2014: £80 million) and decrease Treasury shares by £54 million (2015: £79 million, 2014: £89 million) and increase capital reserves by £49 million (2015: £74 million, 2014: £9 million).

Separately management reviewed the interests in Group entities in the Company's financial statements. These entities were previously held at cost or accounted for directly in the Company's financial statements. For these entities held at cost, an amount has been reclassified from other current assets to Interests in Group entities. In addition, some of these entities are now held at fair value in accordance with IFRS 10 and IAS 27.

For those entities that were accounted for directly within the Company's financial statements, the impact on the Company statement of financial position of this revision, by significant line item, is to reduce quoted equity investments by £56 million (2015: £65 million, 2014: £16 million), unquoted equity investments by £42 million (2015: £81 million, 2014: £117 million), cash and cash equivalents by nil (2015: nil, 2014: £1 million), and increase interests in Group entities by £99 million (2015: £43 million, 2014: £50 million) and equity by £99 million (2015: £34 million decrease, 2014: £21 million).

For those entities that were held at cost, the impact on the Company statement of financial position of this revision, by significant line item, is to increase interests in Group entities by £243 million (2015: £802 million, 2014: £429 million), reduce other current assets by £343 million (2015: £329 million, 2014: £290 million) and increase the capital reserve within equity by £243 million (2015: £455 million, 2014: £33 million). The impact of these restatements is presented on a line by line basis below:

Impact on Company statement of financial position

	As at 31 March 2015			As at 31 March 2014		
	As originally reported £m	Effect of restatement £m	Restated presentation £m	As originally reported £m	Effect of restatement £m	Restated presentation £m
Assets						
Quoted equity investments	399	(65)	334	258	(16)	242
Unquoted equity investments	1,163	(81)	1,082	1,283	(117)	1,166
Interests in Group entities	1,561	840	2,401	1,735	399	2,134
Other non-current assets	–	5	5	–	4	4
Other current assets	341	(329)	12	303	(290)	13
Cash and cash equivalents	735	–	735	605	(1)	604
Other assets	33	–	33	10	–	10
Total assets	4,232	370	4,602	4,194	(21)	4,173
Liabilities						
Trade and other payables	(327)	8	(319)	(292)	(8)	(300)
Current income tax	–	(1)	(1)	–	–	–
Other liabilities	(838)	–	(838)	(887)	–	(887)
Total liabilities	(1,165)	7	(1,158)	(1,179)	(8)	(1,187)
Equity						
Capital reserve	1,400	495	1,895	1,368	63	1,431
Revenue reserve	90	(39)	51	85	(3)	82
Treasury shares	–	(79)	(79)	–	(89)	(89)
Other reserves	1,577	–	1,577	1,562	–	1,562
Total equity	3,067	377	3,444	3,015	(29)	2,986

31 Company – Restatement of prior period information continued

Impact on Company cash flow statement for the year ended 31 March 2015

	As originally reported £m	Effect of restatement £m	Restated presentation £m
Cash flow from operating activities			
Proceeds from investments	270	(34)	236
Net distributions from subsidiaries	143	(11)	132
Carried interest and performance fees received	1	1	2
Operating expenses	(44)	44	–
Income taxes received	–	1	1
Other cash flows	9	–	9
Net cash flow from operating activities	379	1	380
Net cash flow from financing activities	(237)	–	(237)
Change in cash and cash equivalents	142	1	143
Opening cash and cash equivalents	605	(1)	604
Effect of exchange rate fluctuations	(12)	–	(12)
Closing cash and cash equivalents	735	–	735

Independent Auditor's report to the members of 3i Group plc

Our opinion on the financial statements is unmodified

We have audited the financial statements of 3i Group plc (the "Parent Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2016 set out on pages 93 to 139. In our opinion:

- 3i Group plc's Group financial statements and Parent Company 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 2016 and of the Group profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with 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
- these 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

We audited the Group and Parent Company financial statements of 3i Group plc for the year ended 31 March 2016 which comprise:

Group	Parent company
Consolidated statement of comprehensive income for the year to 31 March 2016	Company statement of financial position as at 31 March 2016
Consolidated statement of financial position as at 31 March 2016	Company statement of changes in equity for the year to 31 March 2016
Consolidated statement of changes in equity for the year to 31 March 2016	Company cash flow statement for the year to 31 March 2016
Consolidated cash flow statement for the year to 31 March 2016	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

Areas of audit focus	The following risks had the greatest effect on our overall strategy, on the allocation of resources on the audit, and on directing the efforts of the audit team. – Incorrect valuation of unquoted proprietary investments and resulting impact on the consolidated statement of comprehensive income. – Incorrect calculation of carried interest and resulting impact on the consolidated statement of comprehensive income. – Incorrect recognition of portfolio income and realised profits on disposal of investments. The first two areas of focus are considered to be significant risks, consistent with the 2015 audit strategy.
Audit scope	– The Group is principally managed from one location in London. All core functions, including finance and operations, are located in London. The Group operates nine international offices which are primarily responsible for deal origination and investment portfolio monitoring. – The Group comprises 69 consolidated subsidiaries and 43 investment entity subsidiaries. Monitoring and control over the operations of these subsidiaries, including those located overseas, is centralised in London. – The UK audit team audited all items material to the Group financial statements. – Our audit tested 99% of the investment portfolio and 96% of carried interest accruals.
Materiality	– Overall Group materiality of £44m (2015: £38m) which represents 1% of net assets. – Any audit differences in excess of £2m (2015: £1.9m) are reported to the Audit and Compliance Committee.
What has changed	– The incorrect recognition of portfolio income and realised profits on disposal of investments is included as an area of audit focus. We have included this risk in 2016 as a number of the Group's investments have been realised or re-financed during the period.

Our assessment of areas of audit focus

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.

Area of audit focus	Our response to the area of audit focus
Group and parent company risk **Incorrect valuation of unquoted proprietary investments and resulting impact on the consolidated statement of comprehensive income** *Refer to the Audit and Compliance Committee report (pages 75 to 78); Significant accounting policies (pages 100 to 102); and Notes 10, 11 and 12 of the financial statements (pages 110 to 114)* 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 as Investments in investment entities (which are typically limited partnerships and other holding structures). The Group adopts a valuation methodology based on the International Private Equity and Venture Capital Valuation 2012 ('IPEV') guidelines, in conformity with IFRS 13. 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 judgements 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 judgements made by management, the final sales value may differ materially from the valuation. There is the risk that inaccurate judgements 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. There is also the risk that management may influence the significant judgements and estimations in respect of unquoted proprietary investment valuations in order to meet market expectations of the overall Net asset value of the Group.	Monitoring and control of the valuation process is exercised centrally by management in London and therefore we have reflected this in our audit strategy whereby the London based team perform all audit procedures. Our procedures extended to testing 99% of the related amount. We obtained an understanding of management's processes and controls determining the fair valuation of unquoted proprietary investments. 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 identified key controls in the process, assessed design adequacy and tested operating effectiveness of those controls. This enabled us to rely on controls over portfolio company and comparable company data used in the valuation of unquoted investments. We compared management's valuation methodology to IFRS and the IPEV guidelines. We sought explanations from management where there were judgements applied in their application of the guidelines, and discussed their appropriateness. With the assistance of our valuations specialists, we formed an independent range of the key assumptions used in the valuation of a sample of unquoted investments within both the private equity and debt management business lines, with reference to relevant industry and market valuation considerations. We compared these ranges with management's assumptions, and discussed our results with both management and the Valuations Committee. 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 judgements made by management in the calculation of fair value: – Assessed the suitability of the comparable companies used in the calculation of the earnings multiples; – Challenged management on the application of liquidity discounts to earnings multiples, obtaining rationale and supporting evidence for adjustments made; – Performed corroborative calculations to assess the appropriateness of discount rates; and – Discussed the adjustments made to calculate future maintainable earnings and corroborated this to supporting documentation. We verified the valuation of unquoted investments in the debt management business line to broker quotes and other data from third party pricing sources used by management in the calculation of fair value. 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. We discussed 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 verify the reasonableness of the current year valuation models and methodology adopted by management.

What we concluded to the Audit and Compliance Committee:

The valuation of the unquoted proprietary investment portfolio is considered appropriate and within an acceptable range of fair value. All valuations tested have been measured and recognised in accordance with IFRS and the IPEV guidelines. Appropriate inputs to the valuations were used and we identified no significant differences between the valuations calculated by management and the results of our testing. Based on our procedures performed we had no matters to report to the Audit and Compliance Committee.

Financial statements

Independent Auditor's report

Area of audit focus	Our response to the area of audit focus
Group and parent company risk **Incorrect calculation of carried interest and resulting impact on the consolidated statement of comprehensive income** *Refer to the Audit and Compliance Committee report (page 75 to 78); and Notes 11 and 13 of the financial statements (pages 111 and 115)* 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. Carried interest payable is only paid on realisation of investments. 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, subject to the relevant hurdle rates or performance conditions being met. Judgement 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. There are multiple carried interest arrangements which have been structured over multiple periods, include different pools of investments and investment executives may participate in more than one scheme. The process of calculating carried interest receivable and payable relies on manual calculations. 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.	Monitoring and control of the carried interest process is exercised centrally by management in London and therefore we have reflected this in our audit strategy whereby the London based team perform all audit procedures. Our procedures extended to testing 96% of the related amount. 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. We agreed a sample of calculation methodologies to their respective terms and conditions set out in the underlying agreements. Our audit procedures on the fair value of the underlying investments are stated in the above section. We performed analytical procedures comparing the performance of the reference investments in each fund/scheme, taking into account the investment realisations, to the related accruals in the financial statements. On a sample basis we: – Recalculated the returns on the fund/scheme to test that hurdles/performance conditions had been met where carried interest was being accrued; – 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; – 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 with the anticipated payment dates used to discount the carried interest accrual; and – Verified the resulting cash flows to award letters sent to investment executives and bank statement payments.

What we concluded to the Audit and Compliance Committee:

Our year-end 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 matters to report to the Audit and Compliance Committee.

Area of audit focus	Our response to the area of audit focus
Group only risk **Incorrect recognition of portfolio income and realised profits on disposal of investments** *Refer to the Audit and Compliance Committee report (pages 75 to 78); Significant accounting policies (pages 100 to 102); and Notes 2 and 11 of the financial statements (pages 105 and 111)* 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. Portfolio income is directly attributable to the return from investments. This includes: dividends from investee companies; income from the most junior ranked level of CLO investments; and income from loans and receivables. In general, the calculations are non-complex. However, there is the risk that investment disposals may be recognised before the significant risks and rewards of ownership have been transferred to the buyer. In addition, the calculation of portfolio income includes manual interventions.	Monitoring and control of the portfolio income and realised profits on disposal of investments is exercised centrally by management in London and therefore we have reflected this in our audit strategy whereby the London based team perform all audit procedures. Our procedures extended to testing 77% of the related amount. We confirmed our understanding of the processes and controls around accounting for portfolio income and realised gains by performing walkthroughs of the material processes. We identified key controls in the process, assessed design adequacy and tested operating effectiveness of those controls. We performed detailed testing on a sample of portfolio income transactions to confirm whether they had been appropriately recorded in the income statement. Our tests involved: – Agreeing dividends and income from the most junior ranked level of CLO capital to third party support; and – Recalculating interest income based on the terms of the underlying agreements. For realised gains, on a sample basis, we: – 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 – 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.

What we concluded to the Audit and Compliance Committee:

Our year-end audit procedures did not identify any matters regarding the recognition of realised profits on disposal of investments and portfolio income. All transactions tested have been recognised in accordance with contractual terms and IFRS. Based on our procedures performed we had no 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 the size, risk profile, the organisation of the group and the effectiveness of group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the nature, timing and extent of the audit work to be performed at each entity.

The investment portfolio balance is the most significant 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 UK based audit team. Monitoring and control over the operations of the other subsidiaries within the Group, including those located overseas, is centralised in London. In all locations where the Group has operations, the UK based audit team audited all items material to the Group financial statements.

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

Materiality is defined as 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 £44m (2015: £38m), which is 1% (2015: 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 performance measure to the stakeholders of the entity.

Independent Auditor's report

Performance materiality

Performance materiality is 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, we set performance materiality at 50% (2015: 50%) of our planning materiality, namely £22m (2015: £19m). This is at the lower end of a range of 50% to 75%. In arriving at 50%, we considered the judgemental nature of the valuations in the Consolidated statement of financial position, the relative value of transactions recorded in the other primary statements, and to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality of £44m.

Reporting threshold

Our reporting threshold is defined as 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 £2m (2015: £1.9m), 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 65 to 66, 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
- the information given in the Strategic Report and the Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 committee that we consider should have been disclosed.

Companies Act 2006 reporting

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 66 and longer-term viability, set out on page 31; 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

18 May 2016

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

25 Large investments

The 25 investments listed below account for 79% of the portfolio at 31 March 2016 (2015: 81%). 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. Accounting subsidiaries under IFRS 10 within the 25 large investments below are noted. None of these investments are UK Companies Act subsidiaries.

In accordance with Section 29 of the Alternative Investment Fund Manager Directive ("AIFMD"), 3i Investments plc, as AIFM, encourages all controlled portfolio companies to make available to employees and investors an Annual report which meets the disclosure requirements of the Directive. 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[1] March 2015 £m	Residual cost[1] March 2016 £m	Valuation March 2015 £m	Valuation March 2016 £m	Relevant transactions in the year
Action* Non-food discount retailer	Private Equity Benelux 2011 Earnings	2	1	592	902	Refinancing returned £168m of proceeds
3i Infrastructure plc* Quoted investment company, investing in infrastructure	Infrastructure UK 2007 Quoted	302	270	481	464	£51m special dividend following the sale of Eversholt Rail
Scandlines* Ferry operator between Denmark and Germany	Private Equity Denmark/Germany 2007/2013 DCF	114	114	262	369	£46m of proceeds and income, net of transaction fees, following sale of route between Helsingor and Helsinborg
Weener Plastic* Supplier of plastic packaging solutions	Private Equity Germany 2015 Earnings	–	151	–	173	New investment
Audley Travel* Provider of experiential tailor made travel	Private Equity UK 2015 Earnings	–	161	–	158	New investment
Mayborn* Manufacturer and distributor of baby products	Private Equity UK 2006 Imminent sale	129	149	133	135	Exit announced in April 2016
ATESTEO (formerly GIF)* International transmission testing specialist	Private Equity Germany 2013 Earnings	68	83	78	130	Further investment of £11m
Q Holding* Precision engineered elastomeric components manufacturer	Private Equity US 2014 Earnings	100	100	109	120	
Christ* Distributor and retailer of jewellery	Private Equity Germany 2014 Earnings	99	99	111	117	
AES Engineering Manufacturer of mechanical seals and support systems	Private Equity UK 1996 Earnings	30	30	102	92	
Quintiles Clinical research outsourcing solutions	Private Equity US 2008 Quoted	41	26	144	92	Partial disposal in the year

Investment Description of business	Business line Geography First invested in Valuation basis	Residual cost[1] March 2015 £m	Residual cost[1] March 2016 £m	Valuation March 2015 £m	Valuation March 2016 £m	Relevant transactions in the year
Amor* Provider of affordable precious jewellery	Private Equity Germany 2010 Imminent sale	30	30	54	87	Exit announced in April 2016
Mémora* Funeral service provider	Private Equity Spain 2008 Earnings	159	159	61	83	
Tato Manufacturer and sale of speciality chemicals	Private Equity UK 1989 Earnings	2	2	80	80	
Aspen Pumps* Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity UK 2015 Earnings	65	70	64	64	
Dynatect* Manufacturer of engineered, mission critical protective equipment	Private Equity US 2014 Earnings	65	65	71	63	
OneMed Group* Distributor of consumable medical products, devices and technology	Private Equity Sweden 2011 Earnings	117	124	47	60	
Euro-Diesel* Manufacturer of uninterruptible power supply systems	Private Equity Benelux 2015 Earnings	–	52	–	59	New investment
Geka* Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity Germany 2012 Earnings	69	55	53	55	Refinancing returned £17m of proceeds
MKM Building materials supplier	Private Equity UK 2006 Earnings	22	23	43	53	
Global Income Fund* Debt Management open ended fund with exposure to North American and western European issuers	Debt Management UK 2007 Broker quotes	–	48	–	52	New fund launched
Refresco Gerber European bottler of soft drinks and fruit juices for retailers and branded customers	Private Equity Benelux 2010 Quoted	30	23	47	44	Partial disposal in the year
Agent Provocateur* Women's lingerie and assorted products	Private Equity UK 2007 Earnings	53	53	53	42	
Polyconcept Leader in promotional products industry	Private Equity UK 2005 Earnings	48	48	22	37	
Etanco* Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity France 2011 Earnings	87	93	40	36	
		1,632	**2,029**	**2,647**	**3,567**	

* Controlled in accordance with IFRS.

1 Residual cost includes capitalised interest.

Portfolio and other information

Portfolio valuation – an explanation

Policy

The valuation policy is the responsibility of the Board, with additional oversight and annual review from the Valuations Committee. Our policy is to value 3i's investment portfolio at fair value and we achieve this by valuing investments on an appropriate basis, applying a consistent approach across the portfolio. The policy ensures that the portfolio valuation is compliant with the fair value guidelines under IFRS and, in so doing, is also compliant with the guidelines issued by the International Private Equity and Venture Capital valuation board (the "IPEV guidelines"). The policy covers the Group's Private Equity, Infrastructure and Debt Management investment valuations. Valuations of the investment portfolio of the Group and its subsidiaries are performed at each quarter end.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2012). Fair value is therefore an estimate and, as such, determining fair value requires the use of 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 material 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

The Group's Debt Management business line typically invests in traded debt instruments and the subordinated notes that it is required to hold in the debt funds which it manages. The traded debt instruments and the subordinated notes are valued using a range of data including broker quotes if available, 3i internal forecasts and discounted cash flow models, trading data where available, and data from third-party valuation providers. Broker quotes and trading data for more liquid holdings are preferred.

Methodology	Description	Inputs	Adjustments	% of investment basis portfolio valued on this basis
Earnings (Private Equity)	Most commonly used Private Equity valuation methodology Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics	Earnings multiples are applied to the earnings of the Company to determine the enterprise value **Earnings** Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA") Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period, unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings **Earnings multiples** The earnings multiple is derived from comparable listed companies or relevant market transaction multiples We select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus We adjust for relative performance in the set of comparables, exit expectations and other company specific factors	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	**61%**
Quoted (Infrastructure/ Private Equity)	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	**15%**
Imminent sale (Infrastructure/ Private Equity)	Used where an asset is in a sales process, a price has been agreed but the transaction has not yet settled	Contracted proceeds for the transaction, or best estimate of the expected proceeds	A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds	**5%**
Fund (Infrastructure/ Private Equity/Debt Management)	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	**0%**
Specific industry metrics (Private Equity)	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters, or regulated asset bases for utilities	We create a set of comparable listed companies and derive the implied values of the relevant metric We track and adjust this metric for relative performance, as in the case of earnings multiples Comparable companies are selected using the same criteria as described for the earnings methodology	An appropriate discount is applied, depending on the valuation metric used	**3%**
Discounted cash flow (Private Equity/ Infrastructure)	Appropriate for businesses with long-term stable cash flows, typically in infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	**10%**
Broker quotes (Debt Management)	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 DCF, trade data and other quotes	No discount is applied	**5%**
Other (Private Equity)	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to separate elements as above	**1%**

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 16 June 2016
Record date	Friday 17 June 2016
Annual General Meeting*	Thursday 30 June 2016
Final dividend to be paid	Friday 22 July 2016
Half-year results (available online only)	November 2016
Interim dividend expected to be paid	January 2017

* The 2016 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 30 June 2016 at 11.00am. For further details please see the Notice of Annual General Meeting 2016.

Information on ordinary shares

Shareholder profile: Location of investors at 31 March 2016

UK	67.5%
North America	19.6%
Continental Europe	9.1%
Other international	3.8%

Share price

Share price at 31 March 2016	456p
High during the year (3 June 2015)	570p
Low during the year (11 February 2016)	390p

Dividends paid in the year to 31 March 2016

FY2015 Final dividend, paid 24 July 2015	14.0p
FY2016 Interim dividend, paid 6 January 2016	6.0p

Balance analysis summary

	Number of holdings individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2016	%
1–1,000	13,220	637	6,296,445	0.67
1,001–10,000	5,464	1,037	15,271,333	1.64
10,001–100,000	161	394	19,584,653	2.10
100,001–1,000,000	18	299	107,682,341	11.53
1,000,001–10,000,000	0	119	336,634,814	36.06
10,000,001–highest	0	21	448,191,858	48.00
Total	**18,863**	**2,507**	**933,661,444**	**100.0**

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2016.

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;

– 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** and follow the instructions there to register.

The 2016 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**

More general information on electronic communications is available on our website at **www.3i.com/investor-relations/shareholder-information**

Investor relations and general enquiries

For all investor relations and general enquiries about 3i Group plc, including requests for further copies of the Report and accounts, please contact:

Investor relations
3i Group plc
16 Palace Street
London SW1E 5JD

Telephone +44 (0)20 7975 3131

email **IRTeam@3i.com**

or visit the Investor relations section of our website at **www.3i.com/investor-relations**, for full up-to-date investor relations information, including the latest share price, results presentations and financial news.

Registrars

For shareholder administration enquiries, including changes of address please contact:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Telephone 0371 384 2031

Lines are open from 8.30am to 5.30pm, Monday to Friday (international callers +44 121 415 7183).

Portfolio and other information

Glossary

Alternative Investment Funds ("AIFs") At 31 March 2016, 3i Investments plc as AIFM, managed five AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V, 3i Global Income Fund and the European Middle Market Loan Fund.

Alternative Investment Fund Managers Directive ("AIFMD") became effective from July 2013. As a result, at 31 March 2016, 3i Investments plc is registered as an Alternative Investment Fund Manager ("AIFM"), which in turn manages 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.

Barclays Infrastructure Fund Management business ("BIFM") Acquired by 3i in November 2013 when it managed two active unlisted funds that invest in UK and European PPP and energy projects, with assets under management of over £700 million.

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 The capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act, the Company amended its Articles of Association at the 2012 Annual General Meeting to allow these profits to be distributable by way of a dividend.

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.

We pay carried interest to our investment teams on proprietary capital invested and share a proportion of carried interest receivable from third-party funds. This total carried interest payable is provided historically by reference to two or three-year vintages to maximise flexibility in resource planning.

"CLO" – Collateralised Loan Obligation 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 exchanges 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 will apply 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.

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.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") 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, Infrastructure and Debt Management 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, infrastructure and debt management 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.

Fund Management A segment of the business focused on generating profits from the management of private equity, infrastructure and debt management funds.

Fund Management Operating profit comprises fee income from third parties as well as a synthetic fee received from the Proprietary Capital business less operating expenses incurred by the Fund Management business.

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 and is the principal tool for assessing our Proprietary Capital business.

Glossary

Income from loans and receivables 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.

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 Defined as the difference between our cash income (cash fees from managing third-party funds and cash income from our proprietary capital portfolio) and our operating expenses, excluding restructuring costs.

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, income from loans and receivables and fee income.

Proprietary Capital A segment of the business focused on generating profits from shareholders' capital which is available to invest.

Proprietary Capital operating profit Comprises gross investment return, operating expenses, a fee paid to the Fund Management business and balance sheet funding expenses such as interest payable.

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 loans and receivables 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.

Synthetic fee Internal fee payable to the Fund Management business for managing our proprietary capital.

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.

Underlying fund management profit Calculated as fee income minus operating expenses related to Fund Management activities, excluding restructuring and amortisation costs.

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 last 12 month earnings, when comparing to the preceding 12 months. This measure is a key driver of our private equity portfolio performance.

Notes

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

Designed and produced by **Radley Yeldar** www.ry.com

This report was printed by Pureprint Group using their environmental print technology which minimises the negative environmental impacts of the printing process. Vegetable-based inks were used throughout and 99% of the dry waste and 95% of the cleaning solvents associated with this production were recycled. This report is printed on Cocoon Silk 50%, an environmentally-friendly stock made with ECF (Elemental Chlorine Free) pure cellulose. This paper is FSC® certified and contains 50% recycled material.

FSC® – Forest Stewardship Council
This ensures that there is an audited chain of custody from the tree in the well-managed forest through to the finished document in the printing factory.

RECYCLED
Paper made from recycled material
FSC® C022913

ISO 14001
A pattern of control for an environmental management system against which an organisation can be accredited by a third party.

CarbonNeutral®
The CO_2 emissions associated with the production and distribution of our Annual Report and accounts 2015 have been measured and reduced to net zero through verified carbon offset projects (100% renewable energy projects).

CarbonNeutral.com

3i Group plc
16 Palace Street, London SW1E 5JD, UK
Telephone +44 (0)20 7975 3131

THR27379

Register online

To receive shareholder communications electronically, including reports and notices of meetings, please register at

www.3i.com/investor-relations/shareholder-information

Sign up for 3i news

To be kept up-to-date with 3i's latest financial news and press releases, sign up for alerts at

www.3i.com/investor-relations/financial-news/email-alerts